Schools VAT Manual

This content of this manual is solely for the use and guidance of Kent County Council employees and not for external use.

April 2016

Issued by the Chief Accountant’s Team

For any queries on these procedures please email financetrainingteam@kent.gov.uk
Schools VAT Manual

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Introduction

The purpose of this manual is to provide a basic guide to Value Added Tax as it applies to local authorities and in particular to Kent County Council.

Whilst every attempt has been made to keep the narrative simple and avoid the use of “jargon” wherever possible, because of the complex nature of VAT some use of technical terms is inevitable.

The rules applying to VAT are subject to frequent change arising from UK legislation, European Union Directives, and decisions of the European Court of Justice. In addition there are, on occasion, changes in the interpretation which H M Revenue & Customs (HMRC) put on various treatments of VAT.
This manual has been written with the intention of helping staff understand how VAT should be dealt with in the County Council. It is practical rather than theoretical in approach. Some of the Sections are essential to a basic understanding of VAT, whilst others cover aspects which you may only need to be involved with on rare occasions.

It is not possible to cover every eventuality in a manual such as this, but the Schools Financial Services Team and Chief Accountant’s Team are available to help whenever you encounter particular problems.

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Background

Value Added Tax was introduced into this country from 1 April 1973 as a replacement for Purchase Tax and Selective Employment Tax. The current basic legislation governing VAT is the Value Added Tax Act 1994, although subsequent amendments have been included in the annual Finance Acts.

VAT is a tax, which is levied on supplies of both goods and services, unless they are specifically classed as exempt. Local authorities provide a number of services which are also provided by the private sector. It is one of the fundamental principles of the VAT regime that the authorities must charge tax on these services in the same way as their private sector competitors, in order to avoid unfair competition.

There are two basic descriptions applied to VAT. These are as follows:-

Input tax
The tax paid by an organisation to its suppliers

Output tax
The tax which an organisation charges to its customers

Under the legislation, local authorities are able to reclaim the input tax from HMRC, and are required to pay over to them the output tax, which has been charged. Because Kent County Council incurs far more input tax than the output tax it charges to customers, a net reclaim of VAT is made on HMRC each month.

In order to "police" the operation of VAT, HMRC make regular visits to all businesses and other organisations that are registered for VAT. Because of the size and complexity of the County Council's activities, HMRC carry out a significant number of visits to various departments and establishments during the course of a year. Wherever errors are discovered, an assessment is raised for any tax that is found to be due from the authority. These assessments can cover a period of up to 4 years back from the date of discovery of the error and significant amounts of tax can be involved.

It is important that VAT is dealt with correctly in order to ensure the maximum possible reclaim of input tax, and avoid the penalties arising from under declarations of output tax. Such penalties will normally fall to be borne by the budget holder responsible for the error.

Registration

Businesses that make taxable supplies of goods and/or services are required to register for VAT if their taxable turnover exceeds the current threshold of £83,000.

Taxable turnover means the amount of income from standard rated and zero-rated supplies. This threshold is normally increased each year in line with inflation. However, from time to time the increase has been set at a level higher than that necessary to keep pace with inflation, in order to relieve more small businesses of the need to be registered.

If the taxable turnover of a registered business falls below the registration threshold, and is likely to remain below it, then the business can be de-registered.
Kent County Council is registered for VAT and the registration number is:

   GB 204 2691 91

This number should always be quoted in the above format of three groups of characters rather than as an unbroken set of characters.

From 1 January 1993 each EU Member State has been allocated a prefix to be used with VAT registration numbers when businesses are trading across state borders. The prefix for Great Britain is "GB" and should be included when quoting our VAT registration number to EU suppliers and customers. The "GB" prefix must be included on all invoices that are issued.

This registration number covers all the departments and activities of the County Council (including the Internal Business Units), and must be shown on all tax invoices issued to customers.

Please note that Kent Fire and Rescue Authority are no longer included within the KCC VAT registration which means that all transactions with Kent Fire and Rescue are subject to normal VAT rates.

For the purposes of VAT registration, the term "business" includes organisations that at first sight would not normally be thought of as businesses. It is therefore necessary to be aware of the possible need to register separate funds and bodies for VAT. School Voluntary Funds, for example, would need to be registered if their taxable turnover exceeded the threshold. Advice is available to help you through the process of determining whether the registration threshold has been reached.

If you are involved with any of these separate funds or bodies, and are concerned that they may require to be registered, HMRC Public Notice 700/1 gives detailed advice on the procedures to follow.

Additional guidance can be obtained from the Chief Accountant’s Team CATenquiriesKCC@kent.gov.uk 03000 421447.
VAT categories and indicators

VAT Indicators

Within the County Council’s Accounting System a series of indicators are used to identify the VAT category of each transaction. The current indicators and the category of transaction for which they should be used are as follows:-

- **H** Standard Rate 20% (8)
- **G** Reduced Rate of 5% for certain supplies (2)
- **X** Exempt (3)
- **Y** Non business or Outside the Scope (4)
- **Z** Zero Rate (5)
- **R** No VAT Reclaim
- **W** International Business to Business Sales/Purchases

The SIMS income VAT indicator is shown in brackets

Supplies of goods and services can be divided into two categories, those which are taxable and those which are not taxable.

Taxable Supplies

Supplies, which are made in the course of business activities, are generally taxable. At present there are three rates of VAT applicable in this country.

Standard Rate

The standard rate of VAT is 20%. This applies to all business transactions where the VAT rules do not specify a different tax treatment.

Some examples of standard rated items are:

- furniture and equipment
- building maintenance
- mobile phones and DVD’s
- stationery

Zero Rate

VAT legislation provides for certain supplies to be taxed at a rate of zero. Although no tax is payable on such items they are still regarded as taxable supplies. This is important in the context of determining whether a business or other organisation is liable to be registered for VAT. It is the total taxable income (i.e. standard, lower rate and zero rated items) which is compared with the threshold for registration.

Some examples of zero rated items are:
• most food (but not catering and hot "take aways")
• books and newspapers
• young children’s clothing and footwear
• passenger transport

Reduced Rate
VAT is chargeable on the supplies of fuel and power (e.g. electricity, gas, and heating oil) at the standard rate of VAT on most non domestic properties. However certain supplies are subject to a 5% rate of VAT.

Some examples of reduced rate items are:
• Domestic use
• Non business use by charities
• Small volume supplies

Voluntary aided, voluntary controlled, foundation and trust schools are deemed charitable and supplies will be at the reduced rate.

Where the usage is below set levels the reduced rate of 5% will also apply. These levels are:
• For gas below 150 therms per month or if measured in kilowatt hours less than 4,397 kilowatt hours per month
• A supply of not more than 2,300 litres of fuel oil gas oil and kerosene in any one day
• For electricity where the supply does not exceed 1,000 kilowatt hours per month.

Non Taxable Supplies
Some supplies are specifically excluded from being chargeable with VAT.

Exempt
Supplies falling under this heading include the following:-
• insurance
• certain lettings of land and buildings
• residential care in registered homes
• services of doctors, dentists and opticians
• burials and cremations
• vocational training

Outside the Scope or Non Business
This category includes the following:-

• sale of pupils work in class at no more than cost of materials
• fines for late return of library books
• planning application fees
• statutory licence fees, e.g. TV Licence, MOT test
• donations

It is important to distinguish between non business, exempt, and zero rated transactions as they each have distinct meanings within the overall VAT regime and feature within the monthly VAT return to HMRC.

Commercial Services

All internal transactions within Kent County Council are outside the scope of VAT, this includes some payments to Commercial Services.

Some sections of the former Commercial Services Department were outsourced into two companies, Commercial Services Trading Ltd and Commercial Services Kent Ltd. Supplies provided by the two Commercial Services Companies will attract the normal VAT liability.

Supplies of goods and services by the following former divisions remain outside the scope of VAT (indicator ‘Y’):

• KCS
• KCS Furniture Assembly
• LASER
• Community Equipment Services
• KCS Projects
• KCS Furniture Direct
• Assisted Care Technology.

It is important to distinguish between non business, exempt, and zero rated transactions as they each have distinct meanings within the overall VAT regime and feature within the monthly VAT return to HMRC

When to Use the ‘R’ Indicator
The ‘R’ indicator should be used for the following types of transactions:
• Payments to non-VAT registered businesses where the supply would be taxable if the supplier were registered.

• Payments where the VAT is not reclaimed because the tax invoice is invalid and it is uneconomic to pursue the supplier for a valid invoice (e.g. Non valid till receipts).

• Discounts which cannot be taken (Prior to 1st April 2015)

• When processing Pro-forma invoices

Please note the ‘R’ indicator is only for use for expenditure transactions.

‘Special’ Rates of VAT
Some suppliers may frequently sell a product, which consists of standard rated and zero rated items. An example would be a training package consisting of a standard rated DVD, and zero-rated reading material.

In such cases the supplier may reach an agreement with HMRC to apply a ‘special rate’ of VAT to the total price of the package which will give the same amount of VAT as if the standard rate were applied to the taxable element. This explains why you may sometimes encounter strange rates of VAT on invoices.

For coding purposes show a net amount on the coding document which gives the amount of VAT shown on the invoice when the standard rate of 20% is applied and a second line for the balance of the invoice total as zero rated.

For example:

Value of goods £100.00, VAT Rate shown 12.6%, VAT amount £12.60

Coding:
£63.00 H
£37.00 Z

Tax invoices

Whenever you purchase goods or services that are subject to VAT from a trader who is registered for VAT, you are entitled to receive a tax invoice. This is a statutory right.

Tax invoices are fundamental to the operation of VAT. You cannot reclaim any VAT that you have paid unless you hold a valid tax invoice for the transaction. Similarly if you are supplying taxable goods or services to anyone outside of the County Council you must provide them with a tax invoice and account for the tax to HMRC.

In practice this means that you should only account for VAT if you have a valid tax invoice.
What is a Valid Tax Invoice?

The information required on a tax invoice is clearly specified within the VAT regulations.

For transactions totalling £250 or more (including VAT) the following details must be shown:

- an identifying number from a series that is unique and sequential
- the date of supply (tax point)
- the date of issue (if different to the date of supply)
- name, address and VAT registration number of the supplier
- the recipient’s name (or trading name) and address
- a description which identifies the goods or services supplied

For each description of the goods and services you must show the:

- quantity of goods or extent of the services
- charge made, excluding VAT
- rate of VAT
- total charge made, excluding VAT
- the rate of any cash discount offered; and
- the total amount of VAT payable in sterling
- unit price

An example of an invoice showing all the above details is given on the next page.

The requirement to include unit price on an invoice applies to countable goods or services. For services, the countable element might be, for example:

- an hourly rate
- or a price for standard services.

If the supply cannot be broken down into countable elements, then the total tax exclusive price will be the unit price. Additionally, the 'unit price' may not need to be shown at all if it:

- is not normally provided in a particular business sector and
- is not required by the customer.

If the transaction involves the following types of supply:
- supplies subject to a second-hand margin scheme
- supplies subject to the Tour Operations Margin Scheme (TOMS)
- Intra-EU exempt supplies
- Intra-EU reverse charge supplies, and
- Intra-EU zero rated supplies

the invoice must carry a statement to this effect.

Example of valid tax invoice over £250:

![Invoice Example](image-url)
For transactions totalling £250 or less (including VAT) a less detailed tax invoice will suffice. It must include:

- name, address and VAT registration number of the supplier
- the date of supply
- a description which identifies the goods or services supplied
- for each VAT rate applicable the total amount payable including VAT, and the VAT rate charged.

Till receipts may meet these requirements but care is needed to ensure all the items (i) to (iv) above are shown. The most common deficiency is that the VAT rate is missing. This can be rectified by asking the person making the sale to write it on the till slip.

The description must be intelligible. This means that product codes alone are not acceptable. Cash and Carry Wholesalers are allowed to use a product code system for describing goods but they must provide their customers with an up to date code list.

If the till receipt does not meet the HMRC VAT requirements, you should ask for a VAT invoice. Many firms have suitable documents which cashiers can quickly complete.

Remember that you have a statutory right to be provided with a valid tax invoice.

An example of a standard letter that could be used to request a valid tax invoice from suppliers is included at Appendix 1.

Example of Non-valid receipt

![Receipt Example](image)

There is insufficient detail to reclaim VAT

VAT Indicator R should be used
Example of valid VAT receipt

There is sufficient detail to reclaim VAT

Exceptions

The only occasions when you can reclaim VAT without the need for a tax invoice are when the value of the transaction including VAT is £25 or less and relates to:-

- telephone calls from public or private telephones
- purchases through coin operated machines (such as identity photographs)
- car parking charges (excluding parking meters)
- a single or return toll charge

However you must be certain in such cases that the supplier is registered for VAT.

Copies

In general only original invoices can be used to support a reclaim of VAT. Photocopies are not acceptable to HMRC. However copies or duplicates certified as such by the supplier can be accepted.

In exceptional cases only, where the supplier will not issue a certified copy or duplicate invoice, you should endorse the copy invoice to that effect and also confirm that the normal system copy invoice checks have been carried out.

Faxes are not acceptable if printed on thermal imaging paper but are if copied onto plain paper.

Pro-forma Invoices

VAT must not be recovered on a pro-forma invoice.

A pro-forma invoice should be clearly marked ‘This is not a VAT invoice’.

When a pro-forma invoice is processed for payment VAT indicator R should be used.
The supplier on receipt of the payment must issue a proper VAT invoice which will substantiate an adjustment to recover VAT.

**It is essential to have a procedure to ensure that a valid VAT invoice is received and VAT is recovered.**

**Authenticated Receipts**

The authority is currently not operating an authenticated receipts procedure.

**Alterations**

You must not alter the amount of VAT shown on a tax invoice. If the VAT has been miscalculated by less than 20p you can ignore the error. However if the error is more than 20p you will need to adjust the coding to avoid the accounting entries failing the Oracle system validation of VAT amounts or request a replacement invoice.

This can be illustrated as follows:

**Example of error under 20p tolerance:**

<table>
<thead>
<tr>
<th>Value of goods</th>
<th>£100.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT as shown on invoice</td>
<td>£20.15</td>
</tr>
</tbody>
</table>

**Coding:**

<table>
<thead>
<tr>
<th>Expenditure Code</th>
<th>£100.00</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>£20.15</td>
<td></td>
</tr>
</tbody>
</table>

Entry accepted by Oracle system as error in calculation is less than 20p

**Example of error over 20p tolerance:**

<table>
<thead>
<tr>
<th>Value of goods</th>
<th>£100.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT as shown on invoice</td>
<td>£20.50</td>
</tr>
</tbody>
</table>

**Coding:**

<table>
<thead>
<tr>
<th>Expenditure Code</th>
<th>£100.00</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure Code</td>
<td>£2.50</td>
<td>R</td>
</tr>
<tr>
<td>VAT</td>
<td>£20.50</td>
<td></td>
</tr>
</tbody>
</table>

Where the error in calculating the VAT shown on the invoice is significant, the matter should be taken up with the supplier in order that a correcting debit/credit note or replacement invoice can be obtained.

If a tax invoice has been issued to a customer and it subsequently becomes necessary to amend the amount charged, the original invoice must be cancelled, or a credit note issued, and a replacement invoice raised.
Discounts for prompt payment

Invoices issued after 1st April 2015:

VAT must be calculated on whichever amount is paid; the discounted net amount if the discount is taken or the full amount if the discount is not taken.

The business that is issuing the invoice can either:

- show the VAT values for discount taken and discount not taken
  or
- invoice for the full amount of VAT and then issue a credit note if early payment is received.

If the supplier takes the second option the invoice must contain the following information:

- The terms of the prompt payment discount (i.e. the time by which the discounted price must be paid)
  and
- A statement that the customer can only recover as input tax the VAT paid to the supplier.

Example:-

Value of goods £110.00, Discount for prompt payment £10.00

Coding if discount not taken (from 01/04/15):

<table>
<thead>
<tr>
<th>Expenditure Code</th>
<th>£110.00</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>£22.00</td>
<td></td>
</tr>
</tbody>
</table>

Coding if discount is taken:

<table>
<thead>
<tr>
<th>Expenditure Code</th>
<th>£100.00</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT</td>
<td>£20.00</td>
<td></td>
</tr>
</tbody>
</table>

VAT inclusive amounts

To calculate the tax element of a VAT inclusive amount, divide the gross value by 120 and multiply by 20 or divide the gross value by 6. Do not calculate the VAT as 20% of the tax inclusive (gross) figure.

Examples:
Standard Rate VAT 20%, Gross (VAT inclusive) cost of goods = £108

\[
\frac{108}{120} \times 20 = £18 \text{ VAT}
\]

or

\[
\frac{108}{6} = £18 \text{ VAT}
\]
Electronic Invoicing

There are strict conditions relating to the storage of electronic invoices. You must:

- Be able to guarantee the authenticity and the integrity of the content of your source documents throughout the storage period by electronic or procedural means, and store all the data relevant to the invoices; and

- Store the invoices in a readable format. We must readily be able to recreate the invoice information as at the time of its original transmission. History files must be kept so that appropriate details from any particular time in the past can be retrieved if required by an HMRC officer.

- Invoices must be stored for 6 years.

It is not clear that meeting the above criteria is possible using SIMS and it is therefore recommended that a copy of the invoice is printed off and stored in the normal way.

Accounting for VAT on income

When dealing with income it is important to correctly identify those items on which VAT must be charged. HMRC will usually look at income records first when visiting establishments and area offices. Income can be divided into two main types.

Cash Income
This is income received without an invoice having been issued. Common examples would be money received for:

- Private telephone calls
- Use of photocopier
- Staff meals

Where the income is subject to VAT, the cash received should be treated as VAT inclusive and coded using the ‘H’(8) or ‘G’(2) indicator. Where no VAT is due the ‘X’(3), ‘Y’(4) or ‘Z’(5) indicator should be used as appropriate.

Whilst a VAT receipt will not normally be required for cash income, there will be occasions where the payer asks for one. If the payer is another VAT registered business they have a statutory right to be given a VAT receipt. Receipt books are available in most offices for this purpose.

Credit Income
Credit Income is where an invoice has been issued for the amount which is due from the customer. Common examples would be:

- Lettings
- Sale of goods
- Course Fees
When issuing the invoice the VAT liability of each item must be shown. If the central ORACLE Receivables system is used to raise the invoice the VAT shown will automatically be posted to the County Council’s VAT account.

Where establishments use invoices which they have designed themselves it is essential that they meet HMRC requirements for a valid tax invoice. As such invoices are not part of the central accounting system any VAT will have to coded when payment is received from the customer. This can give rise to tax point problems where payment is not received in the same month as the invoice is issued. These problems can be avoided by crediting the net income and VAT codes and debiting a debtors code at the end of the month in which the invoice is issued. When payment is received it is credited to the debtors code. The Chief Accountant’s Team can give further guidance if required.

If the VAT on an invoice is found to be incorrect after it has been issued, the original should be returned and cancelled and a replacement issued. Alternatively a VAT credit note can be issued, this must include a reference to the original invoice number and date.

Where invoices are being issued to customers in other countries special rules apply and the Chief Accountant’s Team should be consulted.

**Tax points**

Another fundamental of VAT is the concept of tax points. These are important because they determine when any output tax must be accounted for to HMRC. There are two types of tax point.

**Basic Tax Point**
The basic tax point for the supply of goods is the date when they are sent to, or collected by, the customer, or when they become generally available to the customer.

The basic tax point for services is the date on which the performance of the service is completed.

**Actual Tax Point**
The actual tax point is either the date when the invoice is issued or payment received, if this is before the basic tax point; or the date when the invoice is issued if after the basic tax point.

Although the normal VAT rules require the invoice to be issued no later than 14 days after the basic tax point, local authorities have been granted a concession by HMRC which allows the invoice to be issued up to two months after the basic tax point.

Where there is an ongoing service for which payment is made at predetermined intervals, e.g. quarterly, the tax point is when each payment becomes due( if credit income) or when payment is made (if cash income).
Assessments & Penalties

Assessments
When HMRC discover errors during the course of their inspection visits they will raise an assessment for the amount of tax due. If errors are disclosed to HMRC by the County Council a Notice of Voluntary Disclosure will be issued for the amount of VAT due to be paid over. In both cases HMRC deduct the amounts due from the next monthly reclaim.

If KCC make a return that contains a mistake HMRC will levy a penalty if:

- The error is because we have failed to take reasonable care, or
- The error is deliberate, that is we knowingly and intentionally send HMRC an incorrect document but did not take active steps to hide the error, or
- The error is deliberate and concealed, that is we knowingly and intentionally sent HMRC an incorrect document and have taken active steps to hide the error.

The maximum penalty in each of the three scenarios above is 30%, 70% and 100% respectively.

If we have taken ‘reasonable care’ then no penalty will be levied.

Reasonable care is not defined in law but HMRC have indicated that a taxpayer should not be considered careless if:

- We hold a reasonably arguable view which is later not upheld; or
- We have made an arithmetical or transposition inaccuracy which is not so big as to produce an obviously odd result; or
- We have followed advice from HMRC or a competent advisor which turns out to be wrong; or
- Appropriate arrangements or systems exist which could reasonably be expected to produce an accurate calculation of tax but which fail, resulting in a mis-statement of tax which is not significant in relation to the overall tax liability.

The standard of care expected of the County Council and schools will be higher than that for small traders.

Default Interest
From 1 April 1990, HMRC are required to charge interest on any amounts of VAT which have been under declared or over claimed and for which they have raised an assessment. The Treasury sets the rate of interest. Interest will not be charged where the assessment relates to the failure to charge VAT to a customer who would have been able to reclaim it from HMRC, e.g. other local authorities.
Budgetary Implications
Where default interest is charged on errors which have been made by directorates the budget holder will normally be expected to bear the charge.

Inter authority transactions

Goods
The supply of goods by one Local Authority to another is regarded as a business activity and normal VAT liability rules apply. VAT must be charged on those goods that are taxable.

Services
Supplies of services by one Local Authority to another will normally fall into one of the following categories:

- Services supplied under a statutory obligation and not in competition with the private sector are to be treated as non-business and, therefore, not taxable.

- Services not supplied under a statutory obligation but not in competition with the private sector should be treated as non-business but may be taxed if both authorities agree.

- Services supplied in competition with the private sector whether under a statutory obligation or otherwise must be treated as business and taxable at the appropriate rate.

- Services that also include any supplies of goods must be treated as business and taxable at the appropriate rate.

For the purposes of these rules, local authorities are defined as County, District, London Borough, Parish, and Scottish Regional & District Councils. Other Public Bodies must be treated as taxable customers (see Appendix 2).

International transactions

The rules for dealing with VAT on international transactions are complex and vary depending on whether goods or services are supplied and if the supplies are within or outside the European Union (EU).

Goods coming into the UK from other EU countries are referred to as ‘acquisitions’ and goods leaving the UK are referred to as ‘dispatches’ or ‘removals’. The terms ‘Imports’ and ‘Exports’ relate solely to transactions with countries outside the EU.

Transactions within the EU

Purchase of Goods
Where you are acquiring goods from a VAT registered supplier in another Member State you should quote the County Council's VAT registration number on your order, including the
country code prefix i.e. GB 204 2691 91. The supplier may then zero rate that supply on their invoice to you.

VAT on the acquisition must still be reflected through the County Council's monthly VAT return. In order to do this it is essential that a copy of any such invoices is sent to the Chief Accountant’s Team and VAT Indicator W is used when processing the invoice.

This is purely for VAT accounting purposes – there will be no impact on your budget

In those situations where the supplier is unable to apply zero rating they will charge the appropriate amount of VAT in accordance with the rates applying in their Member State. If you are required to make payment direct to that supplier, then you must show the total amount as an "outside the scope" transaction using VAT indicator "Y".

It may be possible to reclaim that VAT from the VAT authorities of the suppliers Member State. This process is far from straightforward, and each country has its own rules, including minimum amounts that they are prepared to deal with, and types of goods and services for which they will not make a refund. Common exclusions are entertainment, transport, and accommodation.

The Chief Accountant’s Team make these reclaim s and accumulate a number of invoices from different departments until the minimum claim threshold is exceeded. Please ensure that the Team are sent copies of all such invoices.

The time of acquisition is the earlier of either:

- The 15th day of the month following the one in which the goods were sent
- The date the supplier issued the invoice

If the value of acquisitions exceeds £600k in a VAT period (month) then a VAT Intrastat return must be made to HMRC.

Purchase of Services
In general business to business services will be treated as being supplied in the country where the business customer is based.

When purchasing services staff must provide the supplier with KCC’s VAT registration number. The supplier should not charge VAT but VAT must still be accounted for on the VAT return using the reverse charge mechanism.

VAT Indicator W should be used for these purchases and Finance will make the necessary entries on the VAT return.

The time of supply for services falling within the reverse charge is the earlier of the date on which the services are completed or the payment made. It is important to process invoices as soon as they are received as penalties can be levied if the transaction is not included in the correct VAT return. Intrastat returns are not required for services.
Sales

When sales of goods or services are made to VAT registered business customers in other EC countries it is a requirement that EC Sales Lists are completed. The guidance below reflects the need to report this information.

Sale of Goods

Where goods are supplied to a VAT registered business in another European Union Member State, the supply can be zero rated (but use VAT Indicator W) providing the following conditions are met:

- The buyers VAT registration number must be quoted on the invoice, including the two character country code prefix
- the goods must be sent to a destination outside the UK
- commercial documentary evidence that the goods have been removed from the UK must be retained

Details of all supplies that have been zero rated in this way have to be supplied to HMRC on a quarterly EC Sales List. It is essential that copies of any such invoices are sent to the Chief Accountant’s Team.

In the event that the conditions for zero rating are not met, normal UK VAT liability rules and rates apply as if making the supply to a customer in this country.

Intrastat returns are required if the value of dispatches exceeds £250k.

Sale of Services

When invoicing for the supply of services within the EU to VAT registered customers use VAT Indicator W. Details of these supplies have to be supplied to HMRC on an EC Sales List. It is essential that copies of any such invoices are sent to the Chief Accountant’s Team.

Exceptions

For business customers, the place of supply in respect of the following services is where the events actually take place:

- services in respect of admission to cultural, artistic, sporting, scientific, educational, entertainment or similar events (including fairs and exhibitions), and ancillary services relating to admission to such events. For other services linked to these categories, the place of supply will be the location of the customer.
- Short term hire of means of transport, such as a car hire, will be supplied where the transport is put at the disposal of the customer.

If you are supplying services to a non VAT registered business or consumer then you must apply the normal UK VAT liability rules and rates.
Transactions External to the EU

Import of Goods
Where goods are imported from outside the EU VAT will be payable at the point of entry into the UK. This VAT will be at the appropriate UK rates and can be reclaimed as part of the normal accounting procedures.

Import of Services
The reverse charge procedure referred to above applies to imported services but not to exempt services.

Export of Goods
Exports may be zero rated provided that the following conditions are met:

- they are exported from the UK within three months of the receipt of payment
- valid commercial evidence or official evidence of export is kept
- delivery must not be made to customers address within the EU

Export of Services
There are complex rules governing international services which may permit zero rating in certain circumstances. If invoices need to be raised to overseas customers consult the Chief Accountant’s Team about the possibility of zero rating.
Appendix 1

Dear Sir

VAT invoice

I attach a copy of your recent invoice for goods supplied to Kent County Council. Unfortunately the invoice does not comply with HM Revenue & Customs requirements set out in section 16 of their Public Notice 700.

Kent County Council is VAT registered and can reclaim the VAT that you have charged, but to do so we need a proper tax invoice. I shall be pleased if you will send me a proper tax invoice in substitution for the attached invoice as soon as possible.

Follow up

Dear Sir

VAT invoice

I refer to my letter dated .......... requesting a proper tax invoice and regret that to date I have received no response to that letter. May I remind you that you have a statutory duty to supply me with a tax invoice. I look forward to receiving this document by return. If I do not receive a response within the next ten days I will have no alternative but to refer the matter to HM Revenue & Customs.
Appendix 2

List of taxable customers
The following is a list of those customers where there may be doubt as to whether they are taxable. VAT must be charged on all taxable supplies made to these customers:
- Government Departments
- Health Authorities
- Hospital Trusts
- Housing Associations
- Independent Schools
- Kent Community Housing Trust
- Kent Economic Development Board
- Kent Education Business Partnership
- Kent Institute of Art & Design
- Kent Police Authority
- National Probation Service
- Kent Music School
- Nursery Schools unless run as part of a local authority
- Parent Teacher Associations
- Playgroups
- Rochester Bridge Trust
- School Voluntary Funds
- Village Hall and Playing Field Management Committees
- Water Companies
- Youth Clubs that are registered charities
- Further Education Colleges
- University of Kent
- Cobtree Museum (Museum of Rural Life)
### Appendix 3

#### VAT liabilities of schools expenses

<table>
<thead>
<tr>
<th>VAT Liability</th>
<th>Description</th>
<th>Indicator</th>
<th>Percentage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenditure</td>
<td>Income</td>
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</tr>
<tr>
<td>SR</td>
<td>Standard Rate</td>
<td>H</td>
<td>8</td>
</tr>
<tr>
<td>LR</td>
<td>Lower Rate</td>
<td>G</td>
<td>2</td>
</tr>
<tr>
<td>EX</td>
<td>Exempt</td>
<td>X</td>
<td>3</td>
</tr>
<tr>
<td>OS</td>
<td>Outside scope</td>
<td>Y</td>
<td>4</td>
</tr>
<tr>
<td>ZR</td>
<td>Zero Rate</td>
<td>Z</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>International Services</td>
<td>W</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CFR Code</th>
<th>Description</th>
<th>VAT Liability</th>
<th>SIMS VAT Indicator</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>E08</td>
<td>Indirect employee Expenses - including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recruitment costs - advertising</td>
<td>SR</td>
<td>H</td>
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<tr>
<td></td>
<td>Recruitment costs - relocation expenses (With VAT receipts)</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td></td>
<td>Interviews, reports etc - fees</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td>E09</td>
<td>Development and Training - including</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Training courses provided by KCC</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td></td>
<td>Purchase of equipment for training</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td>E10</td>
<td>Supply Teacher Insurance</td>
<td></td>
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<tr>
<td></td>
<td>Premiums paid to insurers for supply teacher cover</td>
<td>EX</td>
<td>X</td>
<td></td>
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<tr>
<td>E11</td>
<td>Staff related Insurance - including</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Cover for non-teaching staff absence.</td>
<td>EX</td>
<td>X</td>
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<tr>
<td></td>
<td>Employee related insurance for accident and liability, assault, fidelity guarantee, libel and slander</td>
<td>EX</td>
<td>X</td>
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<tr>
<td>E12</td>
<td>Building maintenance &amp; improvement - including</td>
<td></td>
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<tr>
<td></td>
<td>Charges by contractors for internal and external repair, maintenance and improvement to buildings and fixed plant including costs of labour and materials</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td></td>
<td>Internal professional and technical services,</td>
<td>OS</td>
<td>Y</td>
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<tr>
<td>CFR Code</td>
<td>Description</td>
<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
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<tr>
<td>Costs of materials and equipment</td>
<td>SR</td>
<td>H</td>
<td></td>
<td></td>
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<tr>
<td>Fixtures and fittings e.g. carpet, curtains</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td>E13</td>
<td><strong>Grounds maintenance and improvements - including</strong></td>
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<td></td>
<td>Charges by contractors for maintenance and improvement on gardens and</td>
<td>SR</td>
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<tr>
<td></td>
<td>grounds, including car parking, play areas, playground equipment, sports</td>
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<td></td>
<td>fields and pitches on the school campus</td>
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<td></td>
<td>Above supplied by KCC</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td>E14</td>
<td><strong>Cleaning and caretaking - including</strong></td>
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<tr>
<td></td>
<td>Supplies used in cleaning and caretaking</td>
<td>SR</td>
<td>H</td>
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<tr>
<td></td>
<td>Cost of equipment e.g. floor polishers, vacuum cleaners &amp; other hardware</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td></td>
<td>Charges by contractors for providing a cleaning service</td>
<td>SR</td>
<td>H</td>
<td></td>
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<tr>
<td></td>
<td>Charges by contractors for providing a caretaking service</td>
<td>SR</td>
<td>H</td>
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<tr>
<td></td>
<td>Above supplied by KCC</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td>E15</td>
<td><strong>Water &amp; Sewerage - including</strong></td>
<td>ZR</td>
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<tr>
<td></td>
<td>All costs related to water and sewerage</td>
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<tr>
<td></td>
<td>Emptying of septic tanks etc</td>
<td>SR</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td>E16</td>
<td><strong>Energy</strong></td>
<td>LR or SR</td>
<td>G or H</td>
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<tr>
<td></td>
<td>All costs related to fuel and energy, i.e. fuel oil, solid fuel, electricity</td>
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<td></td>
<td>and gas</td>
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<td></td>
<td>Above provided by LASER</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td>E17</td>
<td><strong>Rates</strong></td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td></td>
<td>Non Domestic rates expenditure</td>
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<td>E18</td>
<td><strong>Other Occupation costs - including</strong></td>
<td>EX</td>
<td>X</td>
<td>May be SR</td>
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<tr>
<td></td>
<td>Rents, lease or hire charge for premises</td>
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<td></td>
<td>Refuse collection</td>
<td>SR</td>
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<td></td>
<td>Hygiene services e.g. paper towels, toilet rolls, hand driers, etc</td>
<td>SR</td>
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<td></td>
<td>Security patrols and services</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>CCTV/Burglar alarm maintenance contracts</td>
<td>SR</td>
<td>H</td>
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<tr>
<td></td>
<td>Electrical testing and pest control</td>
<td>SR</td>
<td>H</td>
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<tr>
<td>CFR Code</td>
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<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
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<tr>
<td>E19</td>
<td><strong>Learning Resources (not ICT equipment) - including</strong></td>
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<tr>
<td></td>
<td>Achievement gifts and prizes awarded to pupils - vouchers</td>
<td>OS or SR</td>
<td>Y</td>
<td>H</td>
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<tr>
<td></td>
<td>Books (text books)</td>
<td>ZR</td>
<td>Z</td>
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<td></td>
<td>Books (exercise books)</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Classroom and learning equipment (excluding ICT equipment)</td>
<td>SR</td>
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<td></td>
<td>Curriculum transport, including minibus expenses such as maintenance, tax, fuel (exc insurance)</td>
<td>SR</td>
<td>H</td>
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<tr>
<td>E19</td>
<td><strong>Learning Resources (not ICT equipment) - Cont.</strong></td>
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<tr>
<td></td>
<td>Furniture used for teaching purposes</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Pupil travel for work experience placements - public transport</td>
<td>ZR</td>
<td>Z</td>
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<td></td>
<td>Pupil travel for work experience placements - taxi</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Pupil travel for work experience placements - hire of vehicle without driver</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Reprographic resources and equipment used specifically for teaching purposes</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>School trips and educational visits - valid VAT invoice</td>
<td>SR</td>
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<td></td>
<td>Servicing and repairs to musical instruments and PE equipment used as part of the curriculum</td>
<td>SR</td>
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<td></td>
<td>Publications</td>
<td>ZR</td>
<td>Z</td>
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<td>Periodicals</td>
<td>ZR</td>
<td>Z</td>
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<td></td>
<td>Television licence fees used for teaching purposes</td>
<td>OS</td>
<td>Y</td>
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<td>Primary school PIP exam costs</td>
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<td>X</td>
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<tr>
<td>E20</td>
<td><strong>ICT learning resources - including</strong></td>
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<td></td>
<td>Computer hardware</td>
<td>SR</td>
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<td></td>
<td>Educational software, including site or other licences,</td>
<td>SR</td>
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<td></td>
<td>Purchase, lease, hire or maintenance contracts of ICT used for teaching</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Costs of Broadband, ISDN, ASDL or other dedicated phone lines</td>
<td>SR</td>
<td>H</td>
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<td>E21</td>
<td><strong>Exam Fees excluding invigilators</strong></td>
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<td></td>
<td>The costs of test and examination entry</td>
<td>EX</td>
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<td>CFR Code</td>
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<td>SIMS VAT Indicator</td>
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<td></td>
<td>fees</td>
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<td>Administrative costs e.g. external marking</td>
<td></td>
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<td>Depends on the type Of expense</td>
</tr>
<tr>
<td>E22</td>
<td>Administrative supply - including</td>
<td></td>
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<tr>
<td></td>
<td>Administrative stationery</td>
<td>SR</td>
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<td></td>
<td>Administrative printing - mainly</td>
<td>ZR</td>
<td>Z</td>
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<td></td>
<td>Photocopying</td>
<td>SR</td>
<td>H</td>
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<td>Postage normally</td>
<td>EX</td>
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<td>Bank charges</td>
<td>EX</td>
<td>X</td>
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<td></td>
<td>Advertising (but not for recruitment)</td>
<td>SR</td>
<td>H</td>
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<tr>
<td>E22</td>
<td>Administrative supply – including (cont)</td>
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<td></td>
<td>Telephone charges</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Mobile phone - purchase</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Mobile phone - business calls</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Mobile phone - calls including private calls which are recharged with VAT</td>
<td>SR</td>
<td>H</td>
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<td></td>
<td>Medical supplies</td>
<td>SR</td>
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<td></td>
<td>Purchase, hire or maintenance contracts of ICT or other equipment not to</td>
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<td></td>
<td>be used for teaching purposes</td>
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<td></td>
<td>Purchase, hire, lease and maintenance of furniture and equipment not used</td>
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<td></td>
<td>for teaching purposes</td>
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<td></td>
<td>Subscriptions to magazines</td>
<td>ZR</td>
<td>Z</td>
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<tr>
<td>E23</td>
<td>Other Insurance premiums</td>
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<td>Vehicle insurance</td>
<td>EX</td>
<td>X</td>
<td>Tax is <strong>not</strong> VAT and must <strong>not</strong> be reclaimed</td>
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<td></td>
<td>Accident and public liability insurance for persons not employed directly by</td>
<td>EX</td>
<td>X</td>
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<td></td>
<td>the school</td>
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<td></td>
<td>School trip insurance</td>
<td>EX</td>
<td>X</td>
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<tr>
<td>E24</td>
<td>Special Facilities - including</td>
<td></td>
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<tr>
<td></td>
<td>Swimming pools school owned - running costs with valid VAT invoice</td>
<td>SR</td>
<td>H</td>
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<tr>
<td></td>
<td>Swimming pools PTA owned - PTA cannot recover VAT</td>
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<td></td>
<td>Rural studies and farm units</td>
<td></td>
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<td>Depends on expense</td>
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<td>Description</td>
<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
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<td><strong>Catering Supplies</strong></td>
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<td></td>
<td>Payments by schools to another school for the benefit of pupils at the other</td>
<td>OS</td>
<td>Y</td>
<td></td>
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<tr>
<td></td>
<td>school</td>
<td></td>
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<tr>
<td></td>
<td>Adult clothing &amp; Footwear</td>
<td>SR</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Children clothing &amp; Footwear</td>
<td>ZR</td>
<td>Z</td>
<td></td>
</tr>
<tr>
<td>E25</td>
<td>Cost of providing free school meals and milk</td>
<td>ZR / SR</td>
<td>Z/ H</td>
<td></td>
</tr>
<tr>
<td>E26</td>
<td><strong>Agency supply teaching staff</strong></td>
<td>SR/EX</td>
<td>H or X</td>
<td>See Appendix 19</td>
</tr>
<tr>
<td></td>
<td>Cost paid to an agency for teaching staff that have been brought in to cover</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>teacher absence.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E27</td>
<td><strong>Bought in professional services - curriculum</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional services, consultancy and advice purchased from KCC</td>
<td>OS</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional services, consultancy and advice purchased from a third party in</td>
<td>SR</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td></td>
<td>support of the curriculum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ICT consultancy services for the curriculum</td>
<td>SR</td>
<td>H</td>
<td>OS if provided by KCC</td>
</tr>
<tr>
<td></td>
<td>Payments to any visiting lecturers/speakers (but not classroom teachers)</td>
<td>SR</td>
<td>H</td>
<td>But check employment status</td>
</tr>
<tr>
<td></td>
<td>Courses purchased for students from external providers, e.g. colleges of</td>
<td>SR/EX</td>
<td>H/X</td>
<td>Depends on nature of supplier</td>
</tr>
<tr>
<td></td>
<td>Further Education or other schools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E28</td>
<td><strong>Bought in professional services - other</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional services, consultancy and advice to staff and governors purchased</td>
<td>OS</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>from KCC includes management, finance, legal, personnel and premises</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## VAT Liability of Schools Expenses

<table>
<thead>
<tr>
<th>CFR Code</th>
<th>Description</th>
<th>VAT Liability</th>
<th>SIMS VAT Indicator</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Professional services, consultancy and advice to staff and governors purchased from an external party</td>
<td>SR</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Management fee on PFI contracts</td>
<td>SR</td>
<td>H</td>
<td></td>
</tr>
</tbody>
</table>
## VAT liabilities of schools income

<table>
<thead>
<tr>
<th>CFR Code</th>
<th>Description</th>
<th>VAT Liability</th>
<th>SIMS VAT Indicator</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>I01</td>
<td>Funds delegated by KCC</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I02</td>
<td>Funding for sixth form students</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I03</td>
<td>High needs top-up funding</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I04</td>
<td>Funding for ethnic minority pupils</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I05</td>
<td>Pupil premium</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I06</td>
<td>Other government grants</td>
<td>OS</td>
<td>4</td>
<td>Grant Income</td>
</tr>
<tr>
<td>I07</td>
<td>Other grants and payments received</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Opportunities Fund (NOF)</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>or Lottery Grants</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>European Union funding</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Payments received from other schools</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Milk Subsidy</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from recycling refunds.</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>I08</td>
<td>Income from facilities and services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from meals provided to other KCC schools</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from assets such as the hire of premises,</td>
<td></td>
<td></td>
<td>See Appendix 6 for</td>
</tr>
<tr>
<td></td>
<td>equipment or other facilities</td>
<td></td>
<td></td>
<td>general lettings and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Appendix 8 for sports</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>lettings</td>
</tr>
<tr>
<td></td>
<td>Hire of equipment</td>
<td>SR</td>
<td>8</td>
<td>If disabled check</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>liability</td>
</tr>
<tr>
<td></td>
<td>All other income the school receives from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>facilities and services e.g. income for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>consultancy, training courses and examinations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>consultancy</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training courses – to other KCC schools</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- provided to external attendees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>by KCC staff</td>
<td>EX</td>
<td>3</td>
<td>Liability as the</td>
</tr>
<tr>
<td></td>
<td>by external trainer to external</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFR Code</td>
<td>Description</td>
<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
<td>Notes</td>
</tr>
<tr>
<td>----------</td>
<td>------------------------------------------------------------------------------</td>
<td>---------------</td>
<td>--------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>attendees</td>
<td></td>
<td></td>
<td>charge from the external trainer</td>
</tr>
<tr>
<td>I08</td>
<td>Light refreshments supplied</td>
<td>EX</td>
<td>3</td>
<td>Liability the same as the training</td>
</tr>
<tr>
<td></td>
<td>Examination Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Any interest payments received from bank accounts held in the school’s name or used to fund school activities</td>
<td>EX</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from sale of school uniforms</td>
<td>SR</td>
<td>8</td>
<td>See Appendix 12</td>
</tr>
<tr>
<td></td>
<td>Income from sale of consumable materials</td>
<td></td>
<td></td>
<td>The VAT liability will follow that of the materials when purchased. Please note that this is not the liability on the invoice from Commercial Services as this is an internal transaction. Refer to the VAT liability on the expenditure list</td>
</tr>
<tr>
<td></td>
<td>-private phone calls</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-photocopying</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-books</td>
<td>ZR</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from before and after school clubs</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income from re-sale of items to pupils</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Assisted Instrument Purchase Scheme</td>
<td>OS</td>
<td>4</td>
<td>See Appendix 18</td>
</tr>
<tr>
<td></td>
<td>-Lap Top Computers</td>
<td>OS</td>
<td>4</td>
<td>See Appendix 17</td>
</tr>
<tr>
<td></td>
<td>-sale of goods incidental to education</td>
<td>OS</td>
<td>4</td>
<td>See Appendix 11</td>
</tr>
<tr>
<td></td>
<td>-commission on photographs</td>
<td>SR</td>
<td>8</td>
<td>Pay into the school voluntary fund.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In the absence of a voluntary fund standard rated</td>
</tr>
<tr>
<td></td>
<td>Income from non-catering vending machines</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>CFR Code</td>
<td>Description</td>
<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
<td>Notes</td>
</tr>
<tr>
<td>----------</td>
<td>-------------</td>
<td>---------------</td>
<td>--------------------</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>Income from a special facility</td>
<td></td>
<td></td>
<td>Check with tax team</td>
</tr>
<tr>
<td></td>
<td>Rent deducted off the site manager’s salary</td>
<td>EX</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>I09</td>
<td><strong>Income from Catering</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Where the school runs its own catering service, income from catering, school milk provision and vending machines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- pupils</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- adults</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>I10</td>
<td><strong>Receipts from supply teacher insurance claims</strong></td>
<td>OS</td>
<td>4</td>
<td>Treated as compensation for the loss incurred</td>
</tr>
<tr>
<td>I11</td>
<td><strong>Receipts from other insurance claims</strong></td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>I12</td>
<td><strong>Income from contributions to visits etc.</strong></td>
<td>OS</td>
<td>4</td>
<td>See Appendix 10</td>
</tr>
<tr>
<td></td>
<td>Income from parental contributions requested by the school e.g. educational visits, field trips, boarding fees, payments to the school for damage done by pupils etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I13</td>
<td><strong>Donations and/or voluntary funds</strong></td>
<td>OS</td>
<td>4</td>
<td>See Appendix 7</td>
</tr>
<tr>
<td></td>
<td>All income from private sources under the control of the governing body available for the purposes of the school or for the purposes of the maintenance of any part of the school premises, including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income provided to the schools account from foundation, diocese or trust funds during the year to support educational needs at the school:</td>
<td>OS</td>
<td>4</td>
<td>See Appendix 7</td>
</tr>
<tr>
<td></td>
<td>- business sponsorship</td>
<td>SR</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- income from fund raising activities</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- any voluntary contributions from parents that are used to provide educational benefits to students</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>I15</td>
<td><strong>Pupil focused extended school funding and/or grants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFR Code</td>
<td>Description</td>
<td>VAT Liability</td>
<td>SIMS VAT Indicator</td>
<td>Notes</td>
</tr>
<tr>
<td>----------</td>
<td>------------------------------------------------------------------------------</td>
<td>---------------</td>
<td>--------------------</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>LSC funding that is deemed to be for pupil focussed extended school activities</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extended school standards fund</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>I16</td>
<td><strong>Community focussed extended school funding and/or grants</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SSG funding that is attributed to community focussed activities should be deducted from I14 and recorded here</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Any LSC grants for community focussed activities</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sure start funding devolved by the LEA</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Any extended school funding for a community focussed activity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I17</td>
<td><strong>Community focussed school facilities income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income received where the activity is primarily for the benefit of the wider community.</td>
<td>OS</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>I18</td>
<td><strong>Additional grant for schools</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Includes funding from this additional grant for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- release of a teacher to work with local schools</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- primary PE and sports grant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- universal infant FSM funding</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5

Deposits
Most deposit payments represent payment for goods and services. The amount paid over is intended to be offset against the purchase price once the supply has been made. Where a deposit is returned (e.g. if a contract is cancelled) it ceases to be payment for a supply of goods and services, assuming no part supply has taken place and is therefore outside the scope of VAT.

Forfeit deposits
Forfeit deposits are in general not consideration for any supplies because they constitute a payment for compensation for breach of contract.

Security Deposits
A deposit taken as security (e.g. against the safe return of goods on hire or loan) is not a supply for VAT purposes. In the event of a deposit being forfeited, either wholly or in part, through the customer failing to fulfil his contractual obligations, the amount retained by the supplier does not represent additional consideration for the original supply or consideration for an additional supply of goods or services.

Returnable containers
Where a charge is added to a supply of goods for the container until it is returned (e.g. the plastic bottle with water), it is necessary to establish why the charge has been raised. If it has been raised to ensure the safe return of the container and the charge is to be refunded on its return, it can be treated in the same way as a security deposit. If, however, the charge has been raised to cover the loan, hire or use of the container, then the charge represents consideration for a supply of services, even if it is refundable when the container is returned.
## Appendix 6
### General lettings

<table>
<thead>
<tr>
<th>Nature of Letting</th>
<th>VAT liability of charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire of a room:</td>
<td></td>
</tr>
<tr>
<td>Including tables and chairs</td>
<td>Exempt</td>
</tr>
<tr>
<td>Including tables and chairs and teas and coffees</td>
<td>Exempt (except where a separately identifiable charge is made)</td>
</tr>
<tr>
<td>Including tables and chairs and hire of a kitchen which the hirer can use to prepare food and drink</td>
<td>Exempt</td>
</tr>
<tr>
<td>Including tables and chairs with a kitchen attached and catering supplied by the local authority</td>
<td>Room hire: Exempt</td>
</tr>
<tr>
<td></td>
<td>Catering: Standard Rated</td>
</tr>
<tr>
<td>Together with access to a bar where the bar is operated by the local authority who account for VAT on their takings</td>
<td>Exempt</td>
</tr>
<tr>
<td>Together with tables and chairs, flipchart and overhead projector</td>
<td>Exempt (except where a separately identifiable charge is made)</td>
</tr>
<tr>
<td>Charges for the provision of staff to act as for example, projectionists, video camera operators, etc.</td>
<td>Standard rated</td>
</tr>
</tbody>
</table>
Appendix 7

Sponsorship

Sponsorship is the term commonly used for financial or other support in the form of goods and services given by businesses or members of the public to sports, arts, education, charities etc. The sponsor receives something in return, for example, advertising, free or reduced priced tickets, hospitality etc. You will be making supplies if there is a written or oral agreement or understanding that, in return for a sum of money, goods or other services, a sponsor will receive from you some publicity or any form of benefit. It makes no difference if the sponsorship is called something else. What matters is the agreement or understanding between the parties.

What is a donation?

A donation is something which is freely given and which secures nothing in return. If you do not give or do anything in return for the sponsor’s support, you are not making a taxable supply and the sponsorship (whether of money, goods or services) can be treated as outside the scope of VAT (Y).

A taxable supply will not be created by the simple acknowledgement of support such as:

- giving a flag or sticker,
- inclusion in a list of supporters in a programme, or on a notice,
- naming a building after the donor,
- putting the donor’s name on a piece of equipment.

If the sponsor’s contribution is made on the condition that the sponsor’s trading logo is advertised or promoted or they receive some other type of benefit, then it is all consideration for a taxable supply and you must account for VAT on it. This applies regardless of whether you have a written sponsorship contract with the sponsor. Examples of supplies commonly made are:

- naming of the event after the sponsor
- display of the sponsor’s company logo or trading name on shirts worn by a team.
- display of the sponsor’s logo in programmes or at the venue
- free or reduced price admission tickets
- access to special events such as premieres or gala evenings
- exclusive or priority booking rights.
Appendix 8

Letting of Sports Facilities

There are special rules that apply to lettings of sports facilities.

There is a two-part test to see if the letting of a space is standard rated as a sports facility:

- If the space is designed and adapted (including by equipping) for playing any sport or taking part in any physical recreation

  and

- The space is let for playing any sport or taking part in any physical recreation

the letting of the space is standard rated unless the exemptions set out below are met.

What is a sports facility?

In practice school gymnasiums will qualify as a sports facility but other rooms or the school hall (unless fitted out as a gymnasium) will not.

The presence of floor markings alone in a room or hall is not sufficient to create a facility for playing sport or for participating in physical recreation. However if specific equipment for playing a particular sport or undertaking a particular form of physical recreation is provided then this is more likely to be deemed a sports letting.

Lettings of outside sports pitches, tennis courts etc. are lettings of sports facilities. HMRC no longer regard the presence of wall bars and stored equipment (that is not for the hirers use) in a school general purpose hall as constituting a sports facility.

Non sports lettings of a sporting facility

If a school gymnasium is let for a non-sporting purpose e.g. a meeting of the local garden society then this is not a sports letting and will be exempt.

Exemptions

If the sports facilities are let out for:

- a continuous period of use exceeding 24 hours

  or

- a series of sessions and all of the following conditions are met, then the letting can be treated as exempt from VAT.

If the following conditions are not met the sports letting remains standard rated:

1) The series consists of 10 or more sessions.

2) Each session is for the same sport or activity.
3) Each session is in the same place, although a different pitch, court or lane, or a different number of pitches, courts or lanes is acceptable. It is not acceptable for the sessions to be split between two completely separate playing fields.

4) The interval between each session is at least one day but not more than 14 days. A letting for every other Saturday afternoon, for example, would meet this condition.

5) The series must be treated as a whole. There must be written evidence of this fact in the form of an official agreement, letter, or invoice and this must make it clear that there will be no refund or credit for any of the sessions which do not take place because the hirer chooses not to use them. A refund can be made in the event of the “unforeseen non-availability” of the facility. This would cover those occasions when the session was cancelled by the County Council because of waterlogged pitches, heating breakdown, etc.

If the school cancels a letting for a not unavoidable reason the school has broken the contract and would therefore have to account for VAT within the monies received i.e. suffer the VAT loss.

If the hirer cancels then all sessions must be paid for otherwise VAT is chargeable. Where the hirer cancels the remaining lettings in a session the school may agree to forgo the income on those sessions but must collect VAT on the sessions that were taken up.

To avoid breaking the condition that the interval between sessions must not be more than 14 days it is recommended that lettings are on a termly basis and not across school holidays.

6) The facilities are let out to a school, club, association, or an organisation representing affiliated clubs or constituent associations (such as a local league)

7) The person to whom the facilities are let has exclusive use of them during the sessions.

NOTES
Where changing rooms, floodlights, or other minor goods and services are included these are regarded as incidental to the main letting and take the same VAT liability.

The exemption does not apply where the hirer is a commercial organisation (but the sports club of a commercial organisation can be exempt if all the conditions are met).

Examples of hirers who are eligible for the exemption include:

- Cubs
- Scouts
- Brownies
- Guides
- Youth Clubs
- Sports Clubs
Any additions to the original agreement will be taxable if charged for. This means that any charge for an additional session or extra hours on the pre-arranged sessions must be subject to VAT.

However additional one off dates notified after the date of the initial agreement and bookings may be treated as part of the series and therefore exempt where the additional date is added in advance, and the cost of the series amended accordingly.

Provided the sessions are specified and agreed in advance, payment can be made at any time (e.g. by instalments) so long as all the specified sessions are paid for.

Hire of sports fields to caravan clubs for rallies or for camping will always be standard rated. However, hire of the sports field for a boot fair will be exempt.
## Appendix 9
### Swimming Pools

#### School owns the pool

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on running costs</td>
<td>Invoices will be addressed to the school, paid by the school; VAT can be recovered under normal rules.</td>
</tr>
<tr>
<td>Charges to individuals for use of the pool, and swimming lessons.</td>
<td>Pupils of the school - VAT treatment is exempt. Young people who do not attend the school may also be treated as exempt. Adults - VAT treatment is exempt.</td>
</tr>
<tr>
<td>Charges to spectators.</td>
<td>All spectators admission will be standard rated.</td>
</tr>
<tr>
<td>Charges for hire of the pool.</td>
<td>Hire of the pool for swimming parties must be treated as standard rated. Other one off hire of the pool must also be treated as standard rated. Hire for a series of sessions should be dealt with under the normal rules for sports lettings and treated as exempt if all the conditions are met.</td>
</tr>
</tbody>
</table>

#### PTA owns the pool

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on running Costs</td>
<td>PTA will pay invoices gross with no recovery of VAT.</td>
</tr>
<tr>
<td></td>
<td>If the invoice is addressed to the school, the school may recover any VAT <strong>BUT</strong> when recharging the costs onto the PTA VAT will need to be added, <strong>except</strong> where it is unmetered fuel/power as this may be treated as exempt “rent”. The school has no management control over the pool nor are they responsible for maintenance costs.</td>
</tr>
<tr>
<td>PTA income</td>
<td>Any income generated by the PTA from the pool activities (i.e. pool open in the summer holidays) will be paid into PTA accounts (no VAT to be accounted for).</td>
</tr>
</tbody>
</table>
Appendix 10

Educational Visits

Educational school visits provided to students and pupils by a local authority school can be treated as a non-business activity provided that the visit is made as part of the official curriculum. This means that visits that are primarily for recreational purposes are excluded.

Where the visit falls within the definition of educational then any VAT incurred on the cost can be reclaimed and the charges to pupils are outside the scope of VAT. The only restriction is that the charge per head to any adult taking part in the visit must not exceed the overall cost per head. In order to enable a VAT reclaim to be made a valid tax invoice must be obtained from the provider of the facilities.

For accounting purposes the cost of the visit should be charged to the school’s official budget and the subsequent collection of income credited to the same budget. It is acceptable to accumulate the money received from pupils in the Voluntary Fund and then to pay over a lump sum into the official budget.

Where the visit is arranged through a travel company then with effect from the 1 January 2010 the Tour Operators Margin Scheme will apply.

Tour Operators Margin Scheme

The TOMS only applies when trips are organised through a tour operator.

This scheme applies to all businesses that buy and re-sell travel, hotel, holiday and certain other travel related services. Travel and holiday companies are included in this category.

Under the scheme, the tour operator has to account for VAT on the difference between the VAT inclusive purchase price and the selling price of its services, i.e. the "margin". The business cannot reclaim the VAT that it is charged on its purchases.

The tour operator will not be able to issue a tax invoice for supplies that fall under the scheme. This is because the actual standard-rated margin will not be known at the time of making the supply, it will only be known at the end of the tour operator’s financial year.

Schools are unable to reclaim any VAT on school visits arranged through travel companies, whether such trips are to take place in this country or abroad.

Any VAT that cannot be reclaimed will need to be included in the cost of the visit when calculating the charge to pupils.

Where a trip is organised directly by the school, e.g. trip to a museum, or the supplier provides all of the supplies, e.g. a residential field education centre, such trips do not fall within the scope of the TOMS and the VAT charged is still recoverable.
APPENDIX 11

Performances by Puppet Theatres etc. in Schools

HMRC allow VAT on charges by Puppet Theatres and other organisations for performances in schools to be reclaimed provided that the performance is booked in the name of the school and the invoice is addressed to the school and paid out of official funds.

Contributions from parents to cover the cost of the performance can be banked directly into the official school bank account without having to account for VAT on the amount received. Alternatively the contributions can be accumulated in the school Voluntary Fund and a single donation made from the Fund into the official school bank account.

Sale of Goods Incidental to Education in Local Authority Schools

HMRC by concession permit sales of goods to pupils for regular classroom use as part of the curriculum to be treated as non-business and therefore not taxable, provided certain conditions are met. These conditions are:

1. The school makes the sale in class to its local authority pupils.
2. The goods are sold at or below cost.
3. The goods are for the direct use of the pupil, and
4. The goods are necessary for delivering the education to that pupil.
5. This will include pens, pencils, exercise books, craft materials, and calculators.
6. The goods are not clothing or sports equipment.

The terms used are further defined as follows:

"In class" means via the school staff, and not supplied directly to the pupil by an outside trader. The school/local authority must own the goods and sell to the parent guardian or pupil purchasing them.

"Regular classroom use" means that although the item may be taken home, it needs to be brought to school at least on a weekly basis, and not, for example, just once a term.

“Cost” means the fully overhead-inclusive price

These rules apply to transactions through official funds and are designed to prevent unfair competition with the private sector. Where this type of transaction is taking place through school Voluntary Funds, the VAT on the purchases could not be reclaimed, and as an unregistered body the fund would not have to charge VAT on its sales.
APPENDIX 12

School Photographs

Commission for school photographs is no longer regarded as consideration for a supply of facilities by the school to the photographer. All such commission can, therefore, be paid into school voluntary funds without the need to account for VAT.

School Uniforms

Whilst the normal VAT rules will apply to items of school uniform there is one important concession. Where the items have a prominent logo or badge which identifies them as part of the official uniform of a school catering exclusively for pupils less than 14 years of age, such as badged blazers or sweatshirts printed with the identity of the school, they can be zero rated irrespective of size.

For items which are not covered by the concession a convenient option, when selling to pupils, is to give the same VAT liability as the supplier did when charging the school.

If uniforms are bought and sold through the Voluntary Fund there are no VAT implications other than the income counting as taxable turnover for the purpose of the registration limit.
APPENDIX 13

Schools and Catering

Local authorities are able to treat as non-business, the meals they supply to pupils provided those supplies are made at or below cost. Non business treatment is also allowed for certain taxable foods provided that they are supplied as part of a meal. Meals supplied to pupils in the school’s breakfast club may also be treated as non-business.

Meals supplied to staff and visitors will always be standard rated.

The meals for pupils are treated as non business when supplied, as catering which is closely related to the provision of education, by a local authority school. In all other cases the provision of catering by the school is standard rated.

The above concession does not apply if meals are supplied direct to pupils by a catering contractor. To avoid pupils having to pay VAT on the meals they must either be provided by the school or the catering contractor must be acting as an agent of the local authority.

The County Catering Contracts

The County Council has catering contracts with external contractors where the catering company supplies the meals to the school and the school then supplies the meals to the pupil.

The contractor charges the school VAT on the pupil meals (both paid and free) and any paid adult meals, this VAT is reclaimed from HMRC.

Money collected from pupils/parents/adults in respect of these meals is handed to the school but in practice is collected and banked by the caterer and then offset against the charge to the school. The cash collected from pupils is outside the scope of VAT but amounts collected from adults include VAT and must be accounted for in the school’s VAT return.

In House Catering

Where a school directly manages the provision of meals, i.e. buys in the food and prepares and serves meals to pupils and adults the provision to pupils will be non-business and the supply to teachers and visitors standard rated.

Catering Contractors not within the County contract

Supplies of catering may be regarded as incidental to the provision of education only when they are made by the local authority school providing education to its own pupils or by someone acting as its agent.

If an independent contractor were to supply meals direct to pupils and not as agent of the local authority, all meals provided would be liable to VAT. It is essential therefore that where the contractor provides meals direct to pupils that they act as the agent of the school and any contract must be structured to meet this requirement.

Some schools have entered their own catering contracts and the VAT implications will depend on how the contract is structured.
Contractor acting as Principal
Where the contractor supplies meals to the school and the school then provides meals to the pupils and adults the contractor will charge VAT on the supply which can be reclaimed from HMRC. VAT charged on the adult meals must be paid over. This situation may arise where the contractor provides meals in containers which the school then supplies to pupils and adults.

If any profit or loss is shared with the school this is subject to VAT.

Contractor acting as Agent
If the contractor is acting as the school’s agent the contractor may submit a profit and loss account that identifies VAT incurred on purchases and VAT charged on adult meals. Both the input and output VAT identified by the contractor must be accounted for within the school’s accounts.

Where any profit or loss is shared with the school these amounts are outside the scope of VAT

There are several different ways these contracts may be structured and invoicing procedures may vary. If schools are uncertain of the VAT position in respect of a local contract the Statutory Team or Taxation Accountant should be consulted for further advice.

Vending Machines
Income from all vending machines in schools can be treated as non-business irrespective of the VAT liability of the actual items sold and the location of the machine provided that the whole of the catering operation at the school is run at, or below, cost.

For this purpose “cost” includes all overheads and not just direct costs. Non-business treatment only applies to pupil purchases. If there is any staff use of the machine HMRC require an apportionment between pupil and staff purchases with the latter being treated as taxable at standard rate.

Catering for Events and Functions
All charges for catering at special events and functions will be standard rated. For example charges to the PTA, Old Pupils Association, hirers of the school premises for parties etc.
APPENDIX 14

Lottery Funded Projects

The National Lottery is used as a source of extra funding particularly to enable particular projects to be undertaken. Such funding normally requires the completed project to have significant community use. Because the community use is principally on exempt activity (e.g. lettings) there are potential VAT problems associated with this type of project. In the worst case the County Council could stand to lose the right to reclaim in the region of £8 m of VAT across all services in any one year. With proper tax planning this situation can be avoided but to do this the Taxation Accountant must be notified of any lottery funded projects whilst they are still at the proposal stage in order that the VAT implications can be properly considered.

Partnerships

There are various types of partnership arrangements and the VAT implications will depend upon a number of factors.

Where the partnership is a separate legal entity it will not fall under the County Council’s VAT registration.

There will be occasions where a number of organisations are simply working together to co-ordinate their own individual activities and avoid duplication of effort. In this case the individual organisations will deal with VAT through their own financial accounts.

There are arrangements which involve organisations working together, sometimes drawing down funds from a single source and sometimes involving an Accountable Body. Even though the Accountable Body may be registered for VAT it does not necessarily follow that all VAT incurred will be recoverable.

If you are considering entering into any form of partnership arrangement consult the Chief Accountant’s Team regarding possible VAT implications.
Savings on gas and electricity bills

(Climate Change Levy)
VAT is chargeable on supplies of gas and electricity and is charged at the standard rate of 20% on most non domestic properties. There are some exceptions including Voluntary Aided, Voluntary Controlled and Foundation schools that are entitled to pay at the lower rate of 5%. Where the standard rate is chargeable, Climate Change Levy (CCL) is also payable but none where the lower rate is paid.

KCC Finance and Commercial Services have identified those LASER customers that were entitled to pay lower rate VAT. The most recent exercise was carried out in March 2006. If the school has switched to LASER after this date they should check if CCL is payable.

If you are not a LASER customer and are a Voluntary Aided, Voluntary Controlled or Foundation School and are being charged CCL on your gas and electricity bills please contact your provider and ask for a CCL exemption certificate.

This exemption does not apply to Community Schools.

LASER customers requiring further information should contact laser.enquiries@laserenergy.org.uk

Non LASER customers requiring further information should contact Chief Accountant’s Team (Finance Chief Accountant’s Team Enquiries – ST).
APPENDIX 16

The Purchase of laptop computers by schools on behalf of pupils

HM Revenue & Customs have recently clarified the rules regarding the sale of Lap Top Computers (including tablets) to Schools.

The purchase of computers by schools and their subsequent sale to pupil’s falls under the normal rules for the supply of goods closely related to the supply of education. Under these rules schools may purchase the goods using official funds, and recover the VAT paid. Subsequent sale of the goods will be outside the scope of VAT (VAT Indicator Y).

There are a number of conditions that have to be met in order for the VAT concession to apply. These are as follows:

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

For avoidance of doubt, it is not enough that a similar item is used in the school tuition, whilst the purchased item is used elsewhere, e.g. at home, for homework.

In addition to the principle conditions outlined, the following general conditions must also be satisfied to demonstrate a supply by the LEA to its pupil:

- The goods and services required must be purchased from the school. By this we mean that the school must hold title to the goods, and transfer ownership to the parent, guardian or pupil purchasing them. However, within that, the delivery address and point of distribution of those goods and services is a matter for individual LEAs to determine.

- Payment for the goods must be made into the school’s official funds not the School Voluntary Fund. The concession does not apply to any transaction carried out through Voluntary Fund Accounts.

- Some evidence, e.g. order form, must be kept to show that the recipient of the goods and services has been receiving education from the school, and that what has been supplied was essential to that education. The style of the order form can be tailored to the needs of the school but it must show the following details:
  - Name of School
  - Name of Pupil
  - Course/Subject for which the goods will be used
  - Description of the goods
  - Signature of Course Tutor
  - Signature of Parent
  - Date
• The price of the goods and services supplied must be at or below cost, there being no intention to make a profit. “Cost” means the fully overhead-inclusive price of supplying the goods and services to the pupil.

It is important schools note that the only way that laptops could possibly qualify for treatment as items closely related to education is if they are used by the student in lessons as a necessary part of receiving tuition from a teacher. Use of the item for homework alone, for example, does not meet these requirements. Failure to comply with the rules could result in the school having to meet the VAT liability from its budget.

Please note: Trading Standards have advised that the school is deemed to be ‘the retailer’ under the terms of the Sale of Goods Act. If a computer needs repairing, the school would be liable for returning the goods to the manufacturer for repair. If a computer is deemed to be faulty, through misuse, the manufacturer may not accept responsibility and the school may, therefore be liable for the goods.
APPENDIX 17

Purchase of musical instruments for pupils

In 2002 a scheme was devised with the help of the Kent Music School (now Kent Music) to reduce the cost of purchasing musical instruments for pupils in receipt of music tuition.

Approval was given by the then Customs and Excise (now HMRC) subject to certain conditions being incorporated in the scheme. **One of the conditions was that the instrument was portable but this is no longer a requirement.**

The revised scheme details are being published as parents may wish to purchase less portable instruments to support their child’s musical tuition.

Details of the scheme are set out below.

Assisted instrument purchase scheme

This scheme allows instruments to be purchased on behalf of a pupil/parent through the school without the addition of VAT, provided the **pupil is receiving music tuition from the LEA which takes place in either an LEA maintained school or in connection with some other LEA run educational activity, such as an orchestra.** The school may use any VAT registered supplier to obtain new instruments under the scheme. Please note that recovery of VAT on second hand instruments may not be possible and where applicable, advice should be sought from the Taxation Accountant on (01622) 694568.

Schools should note that as long as **the tuition is given on school premises by someone approved by either the LEA or school** the scheme may be applied. It is not restricted to tuition that is curriculum based and may also be applied in other areas such as grade examinations. As a result, parents can take advantage of the scheme regardless of whether they are paying for the tuition directly or through the school. This covers pupils using Kent Music or Licensed Music Teachers.

**The scheme may be operated where the Head Teacher is satisfied that the instrument is for the direct use of the student and necessary for the delivery of education to him or her.**

**Head Teachers are under no obligation to operate the scheme and the school may be responsible for repaying any VAT that has been relieved incorrectly.**

**Procedure**

- The details of the instrument required and the tuition arranged, should be provided to the school, by the parent. The instrument should only be of a necessary standard taking into account the attainment of the pupil.

- The parent should commit to the purchase of the musical instrument by placing a minimum 25% deposit with the school when the order is requested.

- Before taking any further action, the school should ensure the tuition has been arranged with a KCC or school approved provider.
• Once the school is satisfied, they may place an order with a supplier.

• The supplier must submit a valid tax invoice addressed to the school. Under no circumstances should the parent pay any money directly to the supplier.

• The supplier should arrange for the instrument to be delivered to the school address. The hand over of the instrument to the pupil should take place on school premises. If the instrument is not portable, delivery may be made to the pupil's home address but the school will need to make alternative arrangements to verify receipt.

• The school should pay the supplier, ensuring the payment is correctly recorded in the school accounts to enable recovery of the VAT.

• The school is responsible for recovering the outstanding balance owed by the parent.

• Schools may be required to provide details of VAT recovered on these purchases to enable the Authority to calculate a VAT Partial Exemption figure.
ASSISTED INSTRUMENT PURCHASE SCHEME

This example pro-forma with appropriate amendment at school level can be used to record a request to purchase an instrument and the school’s certification that the conditions of the scheme have been met.

The supplier must be VAT registered. They must arrange delivery to the school and submit a valid tax invoice addressed to the school.

PART ONE

<table>
<thead>
<tr>
<th>Student Name</th>
<th>Tutor Group</th>
</tr>
</thead>
</table>

Instrument Lesson Details:
Teacher: KMS/Licensed Teacher
Instrument: (please select)

Instrument Purchase Details:
Instrument/Make/Model (please remember to include a precise specification for the official ordering including model number, size, colour and finish, as appropriate, to avoid disappointment)

Price excluding VAT
Supplier
Address
Telephone no

We, the parent(s) agree to pay a minimum of 25% deposit with this order and the balance in full on receipt of a final invoice, to be issued on delivery of the instrument to the school (or other delivery arrangements for non-portable instruments). Cheques should be made payable to: Collection to be arranged on full payment of invoice.

We understand that the responsibility for returning a damaged or inappropriate delivery is ours.

Signed
Dated

Please sign and return to the Music Co-ordinator / Head of Music at the School.

PART TWO

To Finance Office

Please order the above instrument as shown, deposit cheque to the value of £ attached. I confirm this student is taking an approved course using this instrument on school premises.

Please invoice parent when the instrument is delivered to the School (or other delivery arrangements for non-portable instruments).

Signed
Dated

Music Co-ordinator / Head of Music
APPENDIX 18

Schools VAT liability of supplies of staff including secondments

Supply of staff
A supply of staff is made for VAT purposes if the use of an individual who is contractually employed by the school is provided to another person/organisation for consideration (money).

The determining factor is that the member of staff is not contractually employed by the recipient but comes under its direction.

*Staff secondments are normally standard rated including those to other local authorities. Staff secondments to another Kent County Council School are an internal transaction and are therefore non-business.*

Supply of services
Where staff are supplied to another person but continue to operate under the direction of the school, this is not a supply of staff, but is a supply of those services.

*The VAT liability of the supply will depend on the service being provided, most will be standard rated.*

Supply of teaching staff to an eligible body
Where teaching staff, including classroom assistants, are supplied to another education provider (eligible body) and the staff are used in an educational capacity associated with the provision of education to students, this will be an exempt supply. Eligible bodies include universities, further education colleges, schools (as defined in law), health authorities, Government Departments, and non profit making organisations that meet certain criteria.

‘Agreement to release’ rather than supply staff
Sometimes the school will not ‘supply’ the services of its staff but will merely agree to release them at their own request. The most common situation in which this occurs is where teachers undertake exam work, e.g invigilating. When a teacher volunteers to undertake these duties, he or she will make all the necessary arrangements with the examining board and will have two discrete contracts, one with the authority (school) and one with the examining board.

The school will continue to pay the salary of the teacher for administrative reasons and will gain no specific advantage from the arrangement. It plays no role other than agreeing to the release of the teacher concerned.

A similar situation may apply where staff are seconded to other government departments or commercial companies for career development purposes, although in these cases the school may have more involvement in making the arrangements.

Supplies to an Examining Board
If a teacher is seconded to an examining board to advise on methods of assessment this is a taxable supply of staff.
APPENDIX 19

Purchasing via the internet

When purchasing via the Internet care must be taken to ensure that a valid VAT invoice is obtained and appropriate action is taken if the supply is from another EU country.

The school must set themselves up as a business customer otherwise they may not receive a valid VAT invoice. VAT registered suppliers are obliged to provide a valid VAT invoice to a VAT registered customer but not to non VAT registered businesses or individuals.

Although an order may be placed with a UK VAT registered supplier an invoice may be received from another business making the supply on behalf of the Internet Company and the business may be based in another EU country.

To avoid receiving an invoice with VAT levied under the regime of that EU country the Kent County Council VAT registration number must be quoted in full i.e. GB 204 2691 91 when setting the school up as a business customer and when placing orders.

VAT levied on another EU country’s invoice must not be recovered in the normal way. A copy of the invoice must be sent to KCC Schools Financial Services as it is necessary to send an application to their equivalent of HM Revenue & Customs. This is a complex process and it may not be possible to recover the VAT.

If it is necessary to use a credit or debit card to make an internet purchase a KCC Purchase Card must be used, not personal debit or credit cards.