
Processing Value Added Tax (Schools)

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Issued by the Chief Accountant's Team.

For any queries on these procedures please email
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Processing Value Added Tax (VAT)

Introduction

Local Authorities pay VAT on goods and services but the authority is entitled to a refund of the difference between the VAT on purchases and the VAT on income.

Schools must be aware of the VAT rules. The correct treatment of VAT is important as penalties can be incurred if errors are made. If HM Revenue & Customs make an assessment due to VAT errors, the school must meet the cost.

If schools require advice regarding VAT legislation and its application to ensure transactions are treated correctly, please read the VAT manual which can be accessed in the Finance section of Kent Trust Web. For further information please contact:

Schools Financial Services – ST
schoolsfinancialservices@kent.gov.uk
03000 415415

Finance Chief Accountant's Team Enquiries - ST
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03000 421447

Schools Responsibilities

The Governing Body and Headteacher are responsible for ensuring the proper treatment of VAT on all income and expenditure and that VAT is reclaimed and paid promptly.

The school shall submit a VAT reimbursement claim each month or each quarter to their area office by the 10th of the following month. This ensures that VAT is being accounted for promptly and allows reimbursements due to be included with the advance payable to the school on 22nd of that same month.

Categories of VAT

VAT Indicator	Description	Rate
H	Standard Rate	20%
G	Reduced Rate for certain supplies including fuel and power	5%
X	Exempt	0%
Y	Non Business or Outside the Scope	0%
Z	Zero Rate	0%
R	No VAT reclaim	
W	International business to business	0%

Standard Rate

Standard rate VAT applies to all business transactions where the VAT rules do not specify a different tax treatment.

The reduced rate of VAT on certain supplies of fuel and power (e.g. electricity, gas and heating oil) applies in the following circumstances:

- For domestic use, including residential homes
- Non business use by charities
- Small volume supplies
- All Foundation, Voluntary Aided and Voluntary Controlled qualify for reduced rate supplies

Some supplies are specifically excluded from being charged with VAT. These fall into two categories Exempt and Outside the Scope.

Exempt and Outside the Scope

Supplies which fall under Exempt are items such as:

- Certain education and vocational training
- Services of doctors, dentists and opticians

Items which fall within Outside the Scope include:

- Sale of pupils work in class at no more than costs of materials
- Statutory licence fees, e.g. TV licence
- Donations
- Payments to KCC Commercial Services
- Exam fees recharged to pupils

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 regarded as taxable supplies. This is important in the context of determining whether a business or organisation is liable to be registered for VAT.

Examples of zero rated items are:

- Most food (but not catering)
- Books and newspapers
- Young children's clothing and footwear
- Passenger transport

Schools should note that the tax applicable to insurance (Insurance Premium Tax) is an insurance tax and not VAT and therefore is not reclaimable.

When to use 'R'

The VAT indicator "R" should be used for the following types of transaction:

- Payments to non VAT registered businesses where the supply would be taxable if the supplier was 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.
- Discounts that cannot be taken
- When processing pro-forma invoices

VAT indicator 'R' cannot be used for coding income.

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.

You cannot reclaim VAT unless you hold a valid tax invoice/receipt.

Where the value of the transaction covered by the invoice or receipt (including the VAT) is £250 or more the following details must be shown:-

- an identifying number from a series that is unique and sequential
- name, address and VAT registration number of the supplier
- the date of supply
- the date of issue (if different from that of the date of supply)
- name and address of the person to whom the supply has been made
- the type of supply
- unit price
- a description which identifies the goods or services supplied
- for each description above the quantity of goods or extent of services the charge made, excluding VAT the rate of VAT.
- the total charge excluding VAT
- the rate of any cash discount offered
- total amount of VAT payable.

Where the value of the transaction (incl. VAT) is £250 or less a 'less detailed tax invoice' showing the following details is acceptable;

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

KCC can reclaim VAT without the need for a tax receipt only when all of the following conditions are met :

- the value of the transaction (including VAT) is £25 or less
- the transaction relates to-
 - telephone calls from public or private telephones
 - purchases through coin operated machines (such as identity photographs)
 - off street car parking charges (excluding parking meters)
- the supplier is registered for VAT.

Alterations

The amount of VAT shown on a tax invoice must not be altered.

If the VAT has been miscalculated by less than 20p the error can be ignored. If the error is more than 20p the coding will have to be adjusted to avoid the accounting entries failing the Oracle system validation, or a replacement invoice should be requested.

Where the error in calculating the VAT 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.

Discounts

In some cases the supplier will offer a discount for prompt payment. The rules on how VAT on discounts must be calculated will change from 1st April 2015.

Prior to 1st April 2015 VAT had to be calculated on the lower value of the invoice amount, i.e. assuming that the discount would be taken. If the discount was not taken the discounted amount of VAT still stood.

From 1st April 2015 VAT must be accounted for on the amount actually paid to the supplier.

When issuing an invoice the supplier must show VAT on the full price.

If a prompt payment discount is offered, the supplier should show the rate of discount offered on the invoice.

Where the discount is taken up the supplier can either:

- issue a credit note to evidence the reduction or
- annotate the invoice as it is issued

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

Calculation for VAT Inclusive Amounts

The amount of VAT on a standard rate purchase where the total is VAT inclusive can be calculated as follows:

$$\frac{\text{Rate of Tax} \times \text{Cost of goods}}{100 + \text{Rate of Tax}} = \text{VAT amount}$$

Example:

Total cost of goods = £100.00, Rate of VAT = 20%

$$\frac{20 \times 100}{100 + 20} = £16.67 \text{ VAT}$$

Educational Visits: Recovery of VAT

In order to recover VAT in respect of educational visits **all** of the following conditions, as defined by HM Revenue & Customs must be satisfied:

- The visit must serve a clear educational purpose related to a general education curriculum.
- The visit must not be primarily of a recreational or sporting nature except when these activities are provided as part of the general educational curriculum.
- In addition to the conditions above being adhered to, the charge per head to any adult taking part in the visit must not exceed the overall cost per head (ie total cost, excluding VAT, divided by number of places). This means you cannot charge full paying pupils and/or parents more than cost to cover any free subsidised places.
- A valid tax invoice must be obtained so VAT can be reclaimed.

Tour Operators Margin Scheme

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

Because of the way the Scheme operates, the companies are not in a position to issue tax invoices and this **prevents any reclaim**.

Travel companies have sometimes attached a compliment slip to their ordinary invoice stating an amount of VAT per head and suggest to the school that they could reclaim VAT on this basis. HMRC have been consulted and they confirm that a **reclaim cannot be made**. It would be prudent to note this situation in order to avoid visits being costed on the incorrect assumption that VAT could be reclaimed.

Performances in Schools

VAT can be legitimately reclaimed for performances in schools. The following procedure must be followed in order to ensure that all the conditions for reclaim are met:

- The official schools formula allocation is used to make the purchase, (i.e. places the order, receives the supply, receives a tax invoice and makes the payment).
- The school's official funds retain ownership of the purchase and use it for non-business purposes (i.e. performances taking place within school).
- Sufficient records are maintained to enable such purchases, and the purpose for which they are made to be identified.
- The invoice is charged to the school's official funds (ie through the schools bank account). VAT must be accounted for on admission charges to concerts/plays. These, however, must go through the schools official accounting system.

Provision of Lap Top Computers and “Tablets” in Schools

With the ever increasing use of Lap Top Computers (including Tablets) in schools, the opportunity has been taken to clarify the VAT position with HM Revenue & Customs.

The basic position is that the purchase of such items by schools and the subsequent sale to pupils fall under the normal rules for the supply of goods closely related to the supply of education.

Under these rules, schools can purchase the goods using official funds, and recover the VAT paid. Subsequent sale of the goods to pupils will be outside the scope of VAT (use VAT indicator Y).

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

- The goods must be for the direct use of the pupil, and necessary for delivering his/her education.
- The pupil must be receiving that education in a local authority maintained school.

- The local authority, i.e. the school, using official funds, must purchase the goods. The school must own the goods until they are sold to the pupils.
- Amounts received from pupils/parents for the goods must be paid into the school's official funds.

Some tangible evidence must be retained to show that the pupil has been receiving education from the school and the goods supplied were essential to that education. A suitable order form would meet this condition. Individual schools can determine the design of this form but it should show the following details:-

- Name of School
- Name of Pupil
- Course/Subject for the goods will be used.
- Description of the goods
- Signature of Course Tutor
- Signature of Parent
- Date

The amount charged to the pupil must be at or below cost. For this purpose "cost" is defined as the VAT exclusive cost of the goods plus any directly attributable overheads.

The same rules apply where the goods are leased.

The concession does NOT apply to transactions taking place using unofficial funds, e.g. Voluntary Funds; neither does it apply to sales to staff.

Please note: Trading Standards have advised that the school is 'the retailer' if a laptop needs repairing, meaning 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.

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