

VALE OF GLAMORGAN COUNCIL

VAT GUIDANCE MANUAL



TABLE OF CONTENTS

1. Introduction to VAT	Page 1 – 2
2. VAT & Local Authorities	Page 3 – 4
3. VAT Expenditure	Page 5 – 6
4. Scrutiny & Submission of Invoices	Page 7 – 8
5. VAT Income	Page 9 – 11
6. Areas of Specific Concern	Page 12 – 14
7. Property & Land	Page 15 – 16
8. Interest, Penalties & Refund Claims	Page 17 – 18
9. Recent VAT Developments	Page 19 – 20

Appendix A	VAT Ledger Instructions	Page 21
Appendix B	Creditor Payments/VAT Flowchart	Page 22 – 23
Appendix C	Classification of Petty Cash Expenditure	Page 24
Appendix D	Classification of Income	Page 25 – 33
	Shared Regulatory Services	Page 25 – 26
	Neighbourhood Services	Page 26 – 28
	Place	Page 28
	Land & Property	Page 28 – 29
	Education	Page 29 – 30
	Libraries	Page 30
	Social Services	Page 31 – 32
	Miscellaneous Income	Page 33
Appendix E	VAT Grouping – Zero Rated	Page 34 – 36
Appendix F	VAT Grouping – Exempt	Page 37 – 39
Appendix G	Lower Rate of VAT	Page 40
Appendix H	Outside Scope of VAT	Page 41
Appendix I	Frequently Asked Questions	Page 42 – 44



1. INTRODUCTION TO VAT

- 1.1 VAT is a tax on consumer expenditure that is collected on business transactions. Most business transactions involve supplies of goods and services, and VAT will be chargeable where:

When you sell goods ('making a supply of goods') or provide goods or services to someone else for which you are paid ('making a supply of services') then you are normally making taxable supplies. Taxable supplies are those supplies made in the course of business. Supplies which are not made in the course of business are outside the scope of VAT.

The VAT Act 1994 requires that all Local Authorities be registered for VAT if they make any taxable supplies to third parties (but not inter departmental supplies).

- 1.2 There are currently four categories into which the supplies of goods and services are grouped, as set out below.

a) Standard Rated (20%)

All supplies of goods and services are taxable at this rate unless they clearly fall into one of the other categories.

b) Reduced Rated (5%)

Applies to a limited number of supplies including domestic fuel and power.

c) Zero Rated

These goods and services are regarded as taxable but the current rate of tax applicable is zero.

d) Exempt

Businesses making exempt supplies are not able to recover all the VAT on their expenditure. However, where such expenditure is considered negligible (below 5% of the total input tax), the authority may ignore it. If the 5% limit is breached, the Authority will have to account to HMRC for the entire amount of input tax attributed to exempt supplies. New or potentially exempt activities should be promptly reported to Accountancy. Examples of exempt activities include leasing of land & property, provision of non-statutory education etc.

Non-Business Activities (Outside Scope)

- 1.3 When a local authority carries out an activity in its statutory capacity as a public body, subject to certain exceptions, any charges made will be outside the scope of VAT because the supplies will not be made by way of business. Similarly, any income received which is not the consideration for a supply of services (e.g. grants), will also be outside the scope of VAT.

Local Authorities are in a special position in that certain supplies are made because of a legal obligation – full time primary and secondary education for example. These supplies are regarded as being 'non-business' where the authority has a statutory monopoly or there is no significant distortion of competition. Other supplies which are comparable to, or in competition with, supplies of a similar nature to those in the private sector such as catering are 'business' supplies and are subject to the same rules as other VAT registered persons.

It is not always obvious which supplies are considered to be non-business. VAT Tribunals have held that some activities are considered to be business activities even though they were heavily subsidised by the local Council. Accordingly, an activity may be considered to be a business one even though it is not running for profit. Again, it is very important if you are in any doubt about VAT treatment that you ask the VAT Officer.

Internal charges between departments in the authority are outside the scope of VAT. VAT is not charged as there is no supply made to a third party.

- 1.4 VAT which is paid by the Council and relates to taxable supplies is called '**INPUT tax**' and is subsequently reclaimed from HM Revenue and Customs.

VAT which is charged by the Council on goods sold or services provided to its customers is called '**OUTPUT tax**' and is subsequently paid to HM Revenue and Customs.

At the end of each accounting period the excess of 'input tax' over 'output tax' is reclaimed by the Council from HM Revenue and Customs. There is always a reclaim to be made because of the special position of local authorities i.e. most of the supplies made by the Council are considered non-business. The figures are compiled from the information which is input to the Council's payments and income systems. It follows, therefore, that this information must be accurate to enable the Council to recover the money to which it is entitled.



2. VAT AND LOCAL AUTHORITIES

- 2.1 Although local authorities are subject to VAT registration, there is an understanding that certain public sector organisations occupy a special position among taxable bodies.

The definition of these “special” bodies is included in Sections 33, 42 & 96 (4) of the Value Added Tax Act 1994. The main bodies to which these sections apply are:

- a) all local authorities
- b) any joint committee or joint board established by two or more local authorities

If you supply goods or services to government departments, health authorities, WG, charities, voluntary organisations and former public utilities (ie. electricity companies, gas companies, British Telecom etc), you should charge and account for VAT in the normal way.

- 2.2 Under the VAT refund scheme local authorities can claim a refund on VAT they incur on supplies they receive. As far as the supply of Council services is concerned, a distinction is made between business and non business activities.

a) **Business Activities**

Business activities carried out by the Council are those where a supply of goods or services is made which is comparable to a similar supply in the private sector. Such activities will be treated in the same way as those of ordinary traders and VAT must be fully accounted for.

All such business activities provided they are not classified as exempt or zero rated are subject to VAT at the standard rate.

b) **Non Business Activities**

The non business category has particular relevance to local authorities in determining whether VAT should be added to charges being levied by the authority for the services which it provides. For local authorities, non business activities are those for which they have a statutory monopoly or are enshrined within legislation, ie, those services which must or are expected to be done by a local authority rather than those it chooses to do.

While the above definition covers most of a local authority’s main services it is not all embracing. Often the main service will be non business but supplementary services (which are not statutory obligations) are taxable.

The prime areas of local authority non business activity are as follows:

- **Provision of education** free of charge or at subsidised rates.
- **Library Services** (excluding fees and subscriptions relating to non-book items, e.g. music library subscriptions, which are taxable).
- **Social housing provision**
- **Statutory licences and fees etc**
- **Welfare Services**

Extreme care should be exercised before assuming any activity is non-business and reference should be made to the attached appendices and / or the Council's Accountancy Section where doubt exists.

An organisation that does not make supplies in return for a consideration is not a business for the purposes of VAT and cannot be registered for VAT. Therefore, services provided by local authorities free of charge are non business activities, outside scope for VAT purposes.

2.3 **Exempt Input Tax**

In general, where a business activity is carried out and the activity is exempt, the recovery of VAT attributable to the exempt business activity will be blocked, unless the VAT falls within prescribed de minimis limits.

In the case of Section 33 bodies, exempt input tax is recoverable provided that it is less than 5% of the total VAT incurred by the Local Authority. If the exempt input tax exceeded 5% of the total input tax, the Authority would become partly exempt, and therefore unable to recover input tax in full.

Should the Authority incur exempt input tax, which equals or exceeds 5% of total input tax, the Authority would be prevented from recovering that input tax, which is attributable to the exempt activities, not just the amount, which exceeds 5%.

3. VAT ON EXPENDITURE (INPUT TAX)

3.1 General

As a general rule, the Authority is able to reclaim all VAT paid. The exceptions to this include:-

- a) purchase of cars,
- b) certain hospitality expenses
- c) invoices not in the Council's name

It is essential that all amounts of VAT paid are correctly identified and coded as failure to do so will result in the Authority bearing unnecessary additional expenditure on tax which could have been reclaimed or on penalties and interest where tax is incorrectly claimed.

3.2 Reclaiming VAT

In order to reclaim tax paid, the Authority must be the beneficial owner of the goods or services supplied. In other words, there must be a definite benefit to the Authority and not to a third party for whom goods may be purchased or services performed.

This prevents the Authority from using its tax status to buy equipment for another body e.g. a play group, charity or voluntary organisation and passing on the supplies at a VAT exclusive price.

3.3 Tax Invoices

Where VAT is incurred, this may only be reclaimed from Revenue & Customs if a Tax Invoice is obtained from the supplier. For VAT purposes, a tax invoice must include the following information: -

- Invoice number
- the name, address and VAT registration number of the supplier
- the name and address of the customer
- Date of supply (i.e. tax point)
- Description of goods/services
- Total amount payable (excluding VAT)
- the rate of VAT
- VAT amount
- Total amount payable (including VAT)

There are some types of documents which are **NOT** valid for VAT recovery:-

- Pro Forma Invoice
- "This is not a VAT/Tax invoice"
- Certificate for Payment
- Reminder
- Statement

3.4 **Simplified VAT Invoices**

Where the value of supply is **less than £250** (including VAT) then a less detailed tax invoice is acceptable (a simplified invoice). This simplified tax invoice must contain:

- the name, address and VAT registration number of the supplier,
- date of supply (i.e. tax point),
- a description of the supply,
- total amount payable, including VAT,
- the rate of VAT.

This type of invoice is likely to relate primarily to cash receipts for items bought from a petty cash or imprest account.

3.5 **Concessions for Certain Low Value Purchases**

For certain standard rated items **less than £25** in value (including VAT) the VAT element can be assumed even though a tax invoice is not available. Guidance from HM Revenue & Customs has indicated that this concession relates only to the following:

- a) Telephone calls,
- b) Purchases through coin operated machines,
- c) Off street car parking charges. (This does not include parking meter charges which are outside the scope of VAT).

3.6 **Certificated Payments - Construction Industry - Self Billing VAT Invoices**

Payment certificates alone do not constitute sufficient evidence for reclaiming VAT input tax. Without additional supporting documentation, any input tax reclaimed may be disallowed and subject to repayment to Revenue & Customs.

When submitting a certificated payment to Accountancy, if the supplier has already provided a standard VAT tax invoice, the invoice must accompany the certificate to avoid duplication. This is because, for VAT purposes, the payment is supported by the VAT invoice—not the certificate.



4. SCRUTINY AND SUBMISSION OF INVOICES

4.1 Checking Invoices

When checking invoices for payment it is not necessary to verify the tax calculations in detail since the person issuing the bill is responsible for the accuracy of the VAT. However, an invoice should be queried if the tax is out by a significant amount. Particular care should be taken to ensure that if the price charged is inclusive of VAT that the VAT element is identified and accounted for. Regarding discounts for prompt payment, the value for VAT purposes is the discounted amount even if the full amount of the invoice is paid.

4.2 Errors in VAT

When an error is identified on a VAT invoice, the invoice must not be altered or amended, even if the supplier agrees. The financial ledger system (Oracle Fusion) does not permit processing invoices where the VAT amount has been calculated incorrectly. In such cases, the original invoice should be returned to the supplier, who must then issue a corrected invoice.

4.3 Coding VAT

The correct coding of VAT is extremely important, as errors result in the Authority incurring unnecessary expenditure. Where VAT has been charged by a supplier and this is not identified in the coding of the invoice, the Authority does not reclaim the tax and the budget holder reflects higher expenditure than is necessary. Conversely, where an invoice is coded as including VAT, but in reality does not, the Authority is liable not only to repay the tax which it has incorrectly claimed but will be charged interest and possibly penalties. In extreme cases, where it is suspected that the incorrect claiming of input tax is deliberate criminal proceedings may be instigated.

Appendix A gives guidance on the rules covering the correct coding of VAT on creditor invoices.

There are five separate VAT suffixes which can be used in the coding of creditor invoices, two of which relate to standard and reduced rated supplies (suffixes **N** & **F**), and three where no VAT has been applied to an invoice (**O**, **Z** & **E**). Instructions on the use of these suffixes are detailed below and in Appendices A & B.

4.3.1 Standard Rated Supplies

When invoices are passed for payment under the current creditors system, VAT is identified as follows:

VAT Exclusive: VAT will always be shown separately on the invoice. The VAT exclusive amount should be coded to the appropriate financial code and the VAT suffix "N" entered alongside.

Please Note: payment requisition forms should not be used for taxable supplies as they do not constitute adequate supporting documentation for the reclamation of input tax.

4.3.2 Invoices Not Charging VAT

Where an invoice does not contain VAT the full amount of the invoice should be charged to the appropriate financial code and one of the following VAT suffixes attached depending on the tax liability of the payment:

Zero Rated	→	Z
Exempt	→	E
Outside Scope	→	O
VAT only invoices	→	O

4.4 Purchase Card/Petty Cash Claims

The Authority is only able to reclaim VAT where a valid invoice is held. It is recognised that a major problem exists in that suitable tax invoices are not always provided by suppliers and ordinary till receipts are insufficient. Revenue & Customs have indicated that the majority of larger supermarkets now provide tax invoices, if requested, which show VAT separately and can be used as a basis for reclaiming VAT. Every effort should be made by card and imprest holders to request claimants to obtain proper invoices for expenditure incurred.

Purchase card payments and claims for the reimbursement of petty cash should follow the lines for the passing of normal accounts, i.e. showing the correct VAT suffix alongside the amount claimed.

Appendix C, attached, shows the VAT liability of the most common card and petty cash purchases. However, it must be stressed that VAT can only be reclaimed where proper evidence of tax can be proved, i.e. a tax invoice or detailed VAT receipt. Unless proper documentation can be produced H M Revenue & Customs will require the Council to repay the tax that it has improperly reclaimed plus default interest and possibly penalties.



5. VAT ON INCOME (OUTPUT TAX)

5.1 General

As a registered trader, the Authority must charge VAT on its taxable supplies, i.e. goods and services provided to another person or organisation as part of a business activity. VAT should not be charged to other departments or establishments of this Council which are covered by this Authority's VAT registration.

5.2 Business Activities

The definition of a business activity is very broad and incorporates a wide range of functions and services which are predominantly by-products of the Authority's main activities. For detailed guidance on the taxable supplies of a local authority please refer to the appendices at the back of these guidance notes.

However, a few key examples where VAT should be charged are:

- a) **Sales** e.g. non-client meals, equipment, materials, scrap etc.
- b) **Charges** e.g. rechargeable work for private individuals and organisations, photocopying, private telephone calls, printing, subscriptions, etc.
- c) **Staff secondment to other organisations** (including government bodies and charities).

5.3 When Not to Charge VAT

As a general rule business supplies to all external bodies are taxable. This includes individuals, voluntary associations, playgroups, welfare associations, charities, Welsh Government, health authorities, government departments. There are only a few exceptions.

The only occasion where VAT should not be charged on business services is where the supply is Interdepartmental or where supplies are made by one local authority or similar body to another. However, even between these bodies certain activities are classified as taxable and VAT must be charged.

5.4 Time of Supply (Tax Points)

Where standard rated supplies are made output tax must be accounted for in the correct tax period.

The time of supply, or tax point, the date at which output tax must be accounted for, differs for supply of goods and services. But for both supplies of goods and services output tax should be accounted for by reference to the basic tax point, unless an actual tax point is created which overrides the basic tax point.

❖ **The basic tax point for a supply of goods is:**

- the date the goods are sent to the customer, or
 - the date the goods are taken away by the customer, or
 - the date the goods are made available for the customer's use.
-

❖ **The basic tax point for the supply of services is:**

- the date when the service is performed, which is normally taken to be the date when all the work, except invoicing, is completed.
-

❖ **An actual tax point for the supply of goods or services is created when:**

- a tax invoice is issued prior to the basic tax point or within 2 months of the basic tax point, or
 - where payment is received prior to the supply of the goods or services.
 - where there is a continuous supply of services e.g. accountancy and audit services, the tax point is determined when a payment is received, or an invoice is issued.
- It is important that the output tax is accounted for in the VAT period during which the tax point falls, in order to avoid the risk of penalties.

5.5 **Credit (Billed) Income**

As with input VAT (see 4.3), the correct coding of VAT on income is extremely important, perhaps more so since **it is the responsibility of the supplier to correctly charge VAT. Where VAT is not charged, H M Revenue & Customs will assess the Council for the tax it should have charged plus interest and possibly penalties.**

There are six VAT prefixes & associated suffixes which apply to credit income, two for standard rated supplies and the remaining four for non taxable supplies. Instructions for the use of these prefixes and suffixes are detailed below and also in Appendix A.

5.5.1 **Standard Rated Supplies**

Whenever a bill is raised to collect income a decision must be taken as to whether the income is taxable. If so, VAT must be added. The classification of the Council's typical income is shown in Appendix D, however where doubt remains please contact the Council's Accountancy Section for guidance.

Where a supply of goods or services is standard rated, the VAT must be shown separately on the invoice. To achieve this, the charge for the supply should be coded against the appropriate financial code(s) with the VAT suffix "N".

Where the supply is for fuel or power for domestic or charitable qualifying users and the reduced standard rate is required to be generated the suffix "F" should be entered.

5.5.2 **Non Taxable Supplies**

Where the supplies being invoiced for are zero rated, exempt or outside the scope of VAT the appropriate VAT prefix and associated suffix should be entered with the financial code as follows:

		<u>Suffix</u>
Zero Rated	→	Z
Exempt	→	E
Outside Scope	→	O
VAT only bills	→	V

5.6 **The onus is on the department raising the bill to determine the VAT liability and ensure that the VAT is accounted for.**

5.7 **Tax Invoices**

The Authority's accounts receivable system ensures that VAT accounted for on invoices is declared in the correct tax period, and that the invoices produced contain all of the prescribed information for VAT purposes.

5.8 **Cash Income**

When cash income is received a decision has to be taken as to whether such income is inclusive of VAT (see attached appendices). Where VAT is included in the amount this is accounted for as follows, and also as detailed at Appendix A

VAT Inclusive: Where VAT is included in the amount, **the VAT suffix 2** should be attached to the financial code and amount. VAT will automatically be deducted at 20%.

Where VAT is not included care should still be taken to assign the correct VAT suffix to the income. The Council must be able to accurately identify those goods and services it supplies which are exempt from VAT so that it can ensure that it stays within the 5% partial exemption de minimis limit. The VAT suffices for non-taxable income is as follows:

Zero Rated	→	5
Exempt	→	3
Outside Scope	→	6
VAT only cash income	→	1



6. AREAS OF SPECIFIC CONCERN

6.1 Experience to date supports the need to highlight those areas where errors are most frequently made in relation to the treatment of VAT. The information provided will in the main be relevant to all officers as it covers areas common to most departments.

6.2 Supplies to Outside Bodies

The Authority must add VAT at 20% to all its charges to outside bodies for supplies and services made and carried out as taxable business activities. The only exception relates to supplies to other local authorities and in certain circumstances supplies made with funds donated for specific purposes.

The Authority must charge VAT on all taxable supplies to individuals, voluntary groups, clubs, charities, the Welsh Government etc.

Under the VAT refund regulations, the Authority can only reclaim VAT if it:

- places the order for the supply
- receives the supply
- receives a tax invoice addressed to the Authority
- makes payment from its own funds
- for goods - where the title or ownership of the item remains with the Authority e.g. where a Parent-Teacher Association funds the purchase of equipment for use in a school.
- for services - where there is a definite benefit to the Authority and not a third party.

6.3 Purchase Made With Funds Donated for Specific Purposes (C&E VAT Notice 749 Para 4.2 refers)

Local Authorities can claim refunds of VAT they incur on purchases made from funds given to them for specified purposes (e.g. by a PTA) provided they comply with the criteria in 6.2 above.

Examples of supplies which may meet these criteria are:

- a) goods and services for local authority schools which are paid for with donations from parent / teacher associations and school funds.
- b) goods and services for local authority welfare establishments which are paid for with donations from amenity funds.
- c) mini buses, TV sets etc. which are paid for with donations from voluntary bodies for use by local authority homes and schools.

6.4 **Supplies to Other Local Authorities**

All goods supplied by one authority to another are subject to normal commercial VAT rules hence the normal rates of VAT apply.

For services supplied by one authority to another these also are subject to normal commercial VAT rules unless made under a statutory obligation and not in competition with the private sector in which case they may be classified as beyond the scope of VAT. In practice potential competition with the private sector is not always obvious. As a result, many Authorities have incurred VAT assessments for failure to charge VAT upon inter-Authority services. The safest advice is to apply normal VAT rates to all Vatable charges to other Authorities in the knowledge that they can reclaim any VAT incurred via their own VAT return.

The rules as above apply only to Section 33 bodies i.e. local authorities, police authorities, South Wales Fire Authority, National Rivers Authority. A full definition and list of these bodies is defined by Section 33 of the VAT Act 1994 and is conclusive.

Correction of VAT errors.

Revenue & Customs regulations in respect of correcting errors are strict and severely limiting.

Departments should not themselves make journal or any other adjustments (e.g. through the debtors system) in this respect. All requests for VAT adjustments should be referred to the central accountancy contact given at the front of this manual.

Errors in Debtor (Sales) Invoices

Errors can arise due to incorrect value of vatable supplies invoiced, the incorrect VAT liability applied or incorrect calculations. Once an invoice has been issued corrections should be made as follows:-

- **Increasing VAT:** If you need to increase the VAT, a supplementary invoice should be raised for the additional amount. You should ensure the supplementary invoice states on it that it refers to goods or services invoiced on the original. Alternatively, you can credit the total value of the invoice and re-issue it.
- **Reducing or cancelling VAT:** VAT charged incorrectly can be reduced or cancelled only by issuing a credit note which must provide all details required for a VAT invoice.

Errors in Creditor (Purchase) Invoices

Suppliers are responsible for determining the VAT liability. Where there is a supplier error on an invoice, the following procedure should be followed:-

- **Notify the Supplier:** Since the supplier is responsible for determining VAT liability, the first step is to contact them about the error. Explain the issue with the VAT charge (e.g., incorrect VAT rate applied, VAT amount wrong, or missing VAT on certain goods or services).

- **Request a Corrected Invoice:** Ask the supplier to issue a corrected invoice or credit note. The credit note should reflect the corrected VAT amount, and the corrected invoice should be issued with the appropriate VAT treatment.

Depending on the size of the error(s) it may be necessary to make a “Voluntary Disclosure” to Revenue & Customs using their official form VAT 652 for this purpose.

6.5 **Non Standard Invoices**

Staff should not by-pass the Authority’s Debtors Management System by adding the Council’s VAT registration number to their own stationery and creating their own invoices. The main problem with this is that the VAT amount on the “invoice” is not accounted for until the invoice is paid, which is invariably not in the same tax period.

The consequence of this is that Revenues & Customs will charge the Authority default interest for the period between the tax point and the date of declaration. Where the under declaration is significant or persistent, HMRC can impose other financial penalties.

It is therefore imperative that the Finance Department are aware of any VAT liability in the correct tax period. The Authority’s sundry debtors system is designed to automatically update the VAT account with any VAT charged on invoices.



7. PROPERTY & LAND

7.1 General

The VAT liability of business activities connected with land and property is complicated. The grant of any interest in, or right over land, or the grant of any licence to occupy land (this term includes rents and lettings) is exempt except for:

- Sales of new property (i.e. less than 3 years old) or new civil engineering works
- Opted-to-Tax Land & Buildings
- Hotel or similar accommodation
- Holiday accommodation
- Seasonal pitches for caravans and associated facilities
- Tent pitches and camping facilities
- Vehicle parking facilities
- Right to fell or remove standing timber
- Housing or storage of aircraft, ships, boats etc
- Accommodation at recreational and cultural establishments

7.2 The Option to Tax

Exercising the option to tax outputs on a building or a plot of land means that VAT related to it is recoverable in all cases since it no longer relates to exempt activities. It also means that a vendor, landlord etc must charge VAT to the purchaser, tenant etc.

The option to tax is unilateral on the part of the landlord, who may add VAT to the existing rent unless the lease says otherwise.

The option to tax cannot be taken for dwelling nor for “qualifying” buildings. Qualifying buildings are “residential buildings (such as children’s homes, old peoples’ homes, nursing homes and student accommodation) and buildings used by charities either in non-business activities or as community halls.

The option is very inflexible. If taken for a building, or plot of land, it will apply irrevocably to any letting or eventual sale of any part of the building or plot. Industrial estates, complexes and buildings linked internally or by a covered walkway count as a single building. So the option to tax the sale of one part of a building or plot has ramifications for any connected plot or part of the building owned by the Authority.

Should the Authority decide to opt to tax, the VAT Office must be notified in writing within 30 days. It is important that the option is made sufficiently promptly for the input VAT to be recoverable. The basic rule is that the option only allows input VAT to be treated as relating to taxable activities from the date when it is made, although VAT can be recovered retrospectively if no previous exempt supplies, such as lettings, in relation to the land or building, have been made.

7.3 The Implications of Property Transactions

On the inputs side, the Authorities will incur large amounts of VAT. Much of it could relate to exempt business activities and the amounts involved are sufficiently large that there may be a danger of breaching the 5% limit.

On the outputs side, it is vital to ensure that VAT is accounted for correctly on anything which is standard rated. This may be difficult in view of the complexity of the rules, but if VAT is not charged it may be difficult to obtain an additional payment later from a customer, purchaser or tenant. Errors will also mean default interest payments, and potentially serious misdeclaration penalties.

It is also important to ensure that contracts, leases etc allow for VAT. The general rule is that if an amount is agreed without reference to VAT, the amount includes any VAT which is due: the person making the supply would have to find the VAT out of the contract price. The exception to this is if there is a change of rate of VAT between the making of a contract and the "time of supply" for VAT purposes, but opting to tax counts as a change of rate. In view of the complexities of both of these rules and of the VAT treatment of property in general, it is usually sensible to include a VAT provision in a contract or lease, whether or not it is thought that VAT is due.

NOTE: The decision to opt to tax any transaction should not be looked at in isolation, because of the possible consequences, but in the context of previous and anticipated transactions.

All decisions on transactions where there is an option to tax should be coordinated through the Finance Department (Accountancy Section).



8. INTEREST, PENALTIES & REFUND CLAIMS

8.1 General

While Customs have had the power to impose penalties for failure to comply with the requirements of the law since the introduction of VAT on 1st April 1973, the subject of penalties became of particular interest since 1985. Up to that time Customs were confined to the imposition of criminal penalties.

It is not necessary for Customs to establish any degree of culpability for the imposition of a penalty: it is sufficient that an error or omission is made.

For VAT accounting periods starting on or after 1 January 2023 there are new penalties for VAT returns that are submitted late and VAT which is paid late. The way interest is charged has also changed.

8.2 Types of VAT Penalties

8.2.1 **Late Filing Penalties**

Penalties may be imposed under HMRC's points-bases system for missing VAT return deadlines. Each late submission accrues a penalty point, and once a business reaches its penalty threshold, a financial penalty is issued. The threshold varies depending on the filing frequency. Points expire after a set period if compliance improves, but persistent late filings can lead to further penalties.

8.2.2 **Late Payments Penalties**

Failure to pay VAT on time can result in financial penalties and interest charges. HMRC applies a two-part penalty system: an initial charge based on the overdue amount and additional penalties if the VAT remains unpaid for an extended period. Interest may also be added daily to outstanding balances, increasing the overall amount due.

8.2.3 **Incorrect Return Penalties**

Submitting inaccurate VAT returns can lead to penalties, particularly if the errors result in underpaid tax. The severity of the penalty depends on whether the mistake was careless, deliberate, or concealed. Under these circumstances a voluntary declaration of the VAT error must be made to HMRC. Proactively notifying HMRC of any VAT errors may result in reduced penalties, whereas failing to disclose inaccuracies may mean the Council faces higher fines.

Officers should not assume that local authorities will receive any special dispensation from these penalties. A number of local authorities have already been charged with serious misdeclaration.

8.3 **Interest on Late Payments**

8.3.1 **Late Payment Interest:** If VAT is not paid by the deadline, HMRC can charge interest on the overdue amount. This is calculated daily and applied to the VAT that remains unpaid.

8.3.2 **Rates:** The rate of interest is set by HMRC and can vary. The rate is generally linked to the Bank of England base rate, with a margin added.

8.3.3 **Late Payment Penalty:** In addition to interest, there may also be late payment penalties. These are calculated based on the amount of VAT due and how late the payment is.

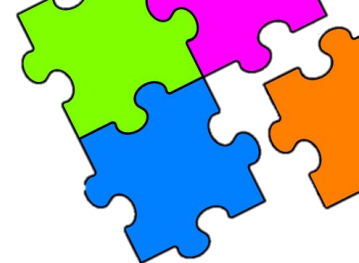
8.4 **VAT Refund Claims**

8.4.1 **Eligibility:** VAT-registered businesses can claim refunds for VAT overpaid or incorrectly charged.

8.4.2 **Time Limits:** Generally, businesses must submit a claim for VAT overpayments within 4 years from the end of the VAT period in which the overpayment was made. After this period, claims are typically no longer valid.

8.4.3 **Excess VAT Paid:** If HMRC determines that a business has paid more VAT than it should, the business can claim a refund. The process involves submitting a VAT refund claim, which can sometimes take several weeks or months to process.

8.4.4 **Reimbursement of Overpaid VAT:** Refund claims may be made directly to HMRC or used to offset future VAT liabilities.



9. RECENT VAT DEVELOPMENTS

9.1 Construction Reverse Charge

9.1.1 Since March 2021, most construction services supplied between VAT registered businesses in the UK have been subject to the domestic reverse charge.

- Under this system, the **customer** (not the supplier) accounts for the VAT due on the supply. The supplier issues an invoice excluding VAT.
- It applies only when the customer is VAT-registered and the service falls under the **Construction Industry Scheme (CIS)**.
- The rule targets **standard and reduced-rate** supplies (zero-rated works are excluded e.g. new dwellings).

9.1.2 **Which services are covered, and which services are not.**

Covered Services:

- ✓ Building, repairing, extending/demolishing structures
- ✓ Installing systems (electrical, drainage, heating, etc.)
- ✓ Decorating, site clearance, earthworks, landscaping, scaffolding where labor is involved

Excluded:

- ✗ Supplies of goods only, even if used in construction, unless bundled with other services, then should be treated as a single supply
- ✗ Professional services i.e. architecture or surveying
- ✗ Workers supplied by employment businesses

9.1.3 **Special Rules for End-Users (Local Authorities).**

- Local Authorities acting in a public function capacity are often treated as end users and the reverse charge does not apply.
- If the Council is working commercially, supplying onward construction services, the reverse charge does apply. Councils must assess their status and inform suppliers accordingly.

9.1.4 Practical Implications.

For Suppliers:-

- Must issue zero VAT invoices marked “**reverse charge**” with supplier and customer VAT registration numbers.
- Failure to treat a client as an end user (usually due to missing written notice from customer) and the invoice will default to reverse charge.

For Customers:-

- Account for both the input and output on the Council’s VAT return i.e. the reverse charge.
- No VAT is paid on the invoice – it is accounted for on the VAT claim. Net result is a zero claim.
- Systems that support the reverse charge accounting format.

9.2 Leisure & Sporting Services.

With effect from March 2023, local authorities can now treat in-house leisure and sporting services as non-business supplies for VAT purposes, rather than commercial activities. This follows court rulings (e.g. Chelmsford) that recognised these services as statutory functions under a legal framework.

9.3 Care Sector – Changes to the treatment of VAT Grouping within the Care Industry

In Revenue & Customs Brief 02/25 (April 2025), HMRC targeted structures used by some care providers and local authorities whereby a non-regulated entity within a VAT group charged fees liable to VAT, enabling local authorities to reclaim VAT. HMRC views these arrangements as tax avoidance, and is refusing new group registrations or reviewing existing schemes.

9.4 VAT on Private School Fees & Impact on Local Authorities

With effect from 1 January 2025, private school fees are subject to 20% standard VAT ending the long-standing exemption.

- Local authorities funding pupils’ attendance in private provision (e.g. for special educational needs or alternative placements) can reclaim the VAT charge.
- Fees paid by parents without local authority involvement are subject to the standard rate of VAT

APPENDIX A

VAT - LEDGER CODING INSTRUCTIONS

VAT SUFFIX

1. EXPENDITURE

Creditors

- a) Taxable Supplies**
Standard Rated - N
Reduced Rate - R
- b) No VAT**
Zero Rated - Z
Exempt - E
Outside Scope/Non Business - O

2. INCOME

Debtors Management Billed Income

- a) Taxable Supplies**
Standard Rated – N
Reduced Rate - R
- b) Non taxable Supplies**
Zero Rated – Z
Exempt - E
Outside Scope/Non Business - O
VAT only bills – V

Cash Income (VAT inclusive in amounts banked)

- a) Taxable Supplies**
Standard Rated – 2
- b) Non taxable Supplies**
Zero-Rated - 5
Exempt - 3
Outside Scope/Non Business - 6

APPENDIX B

CREDITOR PAYMENTS

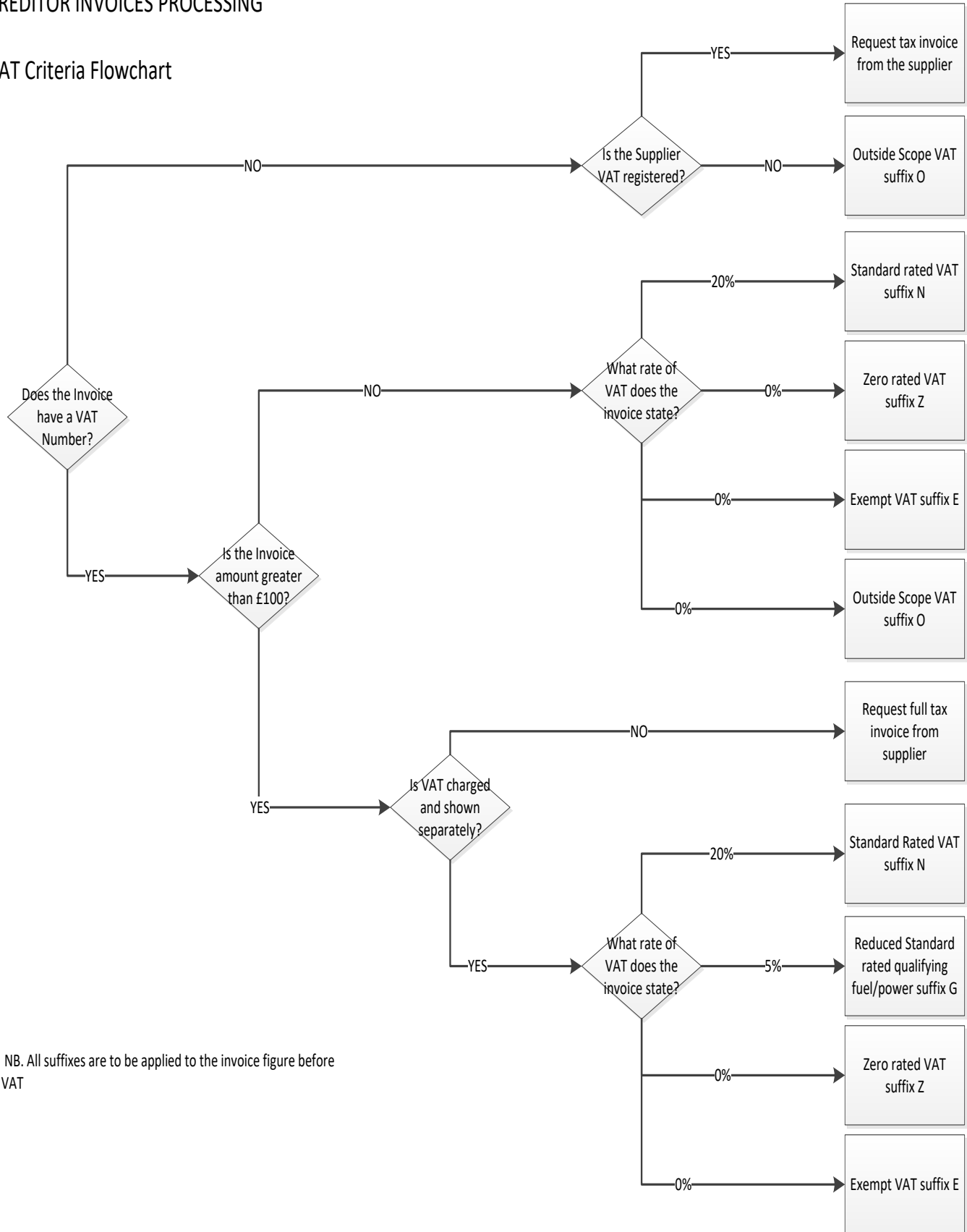
All the information required to determine the correct VAT suffix will be shown on the invoice. The following decision flow chart (next page) shows the questions which should be answered when correctly coding creditor invoices.

Note: if you are unsure whether or not your supplier is registered for VAT, please contact them for clarification.



CREDITOR INVOICES PROCESSING

VAT Criteria Flowchart



NB. All suffixes are to be applied to the invoice figure before VAT

! Please note the threshold for the invoice amount has increased from £100 to £250

APPENDIX C

CLASSIFICATION OF TYPICAL PETTY CASH EXPENDITURE

The following details the VAT liability of some typical items of petty cash expenditure. However, please ensure that where input VAT is coded that you have adequate evidence of tax charged.

Office Supplies (e.g. pens, paper, stationery, etc.)	Standard Rated
Postage Stamps	Exempt
Children's Clothing & Footwear	Zero Rated
Unprepared Food	Zero Rated
Prepared Food (e.g. sandwiches, takeaways, chips etc.)	Standard Rated
Confectionary (e.g. crisps, chocolate, canned drinks etc.)	Standard Rated
Medical Supplies - on prescription	Zero Rated
Medical Supplies – Non-prescription	Zero Rated/Standard Rated
Newspapers/Publications	Zero Rated
Vehicles (Fuel) – petrol/diesel/electric	Standard Rated
Printing/Photocopying	Standard Rated
Subscriptions (if the organisation is registered)	Standard Rated
Subsistence Expenses	Standard Rated
Telephone Calls	Standard Rated
Train/Bus Fares	Zero Rated
Taxi Fares	Standard Rated

APPENDIX D

CLASSIFICATION OF INCOME

The following sections detail the VAT liability of the major supplies made by departments of the Council to individuals, businesses and other bodies external to the Council. The following general rules should be noted:

- Supplies to other departments of the Authority, except self supply for new buildings are non business activities
- Supplies to other **local authorities** are subject to special rules, and reference should be made to Section 6.4 to determine the preferential VAT treatment.
- Supplies to other public bodies will probably **be subject to the normal rules of VAT applicable to businesses and private individuals**, but reference should again be made to Section 6.4 to confirm this.

§ SHARED REGULATORY SERVICES

TRADING STANDARDS/ LICENSING

1.	Weights - Testing	Non-business
2.	Measures – Testing. Linear Measures; Capacity Measure; Cubic Ballast Measure and Liquid Capacity Measures	Non-business
3.	Weighing Instruments	Non-business
4.	Measuring Instruments – Intoxicating Liquor; Liquid Fuel & Lubricants and Road Tanker Liquid fuel	Non-business
5.	Testing of Equipment in pursuance of EC Initial or Partial Verification	Non-business
6.	Adjusting & other services under Section 74 of the Weights & Measures Act 1985	Non-business
7.	Fees for the purpose of Poisons Act 1972 – Initial Registration; Re-Registration and change in details of registration	Non-business
8.	Explosives registration fees	Non-business
9.	Disposal of recovered property	Standard rated
10.	Statutory Licences i.e. taxi & private hire licences, premises licences, animal licensing etc.	Non-business

ENVIRONMENTAL HEALTH/POLLUTION

1.	Disposal or arrangements for the disposal of the dead	Exempt
2.	Burials under the Public Health (Control of Disease Act) 1984	Non-business
3.	Issue of certified copies of certificates	Non-business
4.	Sample & analysis of private water supplies under the Private Water Supplies Regulations 1991	Non-business
5.	Authorisation for the operation of prescribed industrial processes relating to air pollution control	Non-business
6.	Emergency investigation & enforcement functions under the Food Environment Protection Act 1985 and the Food Safety Act 1990	Non-business
7.	Register of controlled processes	Non-business
8.	Pest control	Non-business (no specific charge, otherwise standard rated)

§ NEIGHBOURHOOD SERVICES

WASTE CONTROL

1.	Collection of commercial & domestic refuse	Non-business
2.	Provision of receptacles for holding refuse	Non-business if no specific charge is made, otherwise standard rated
3.	Arrangements for the disposal of controlled waste & provision of civic amenity sites	Non-business
3.	Cesspits Emptying Charges (Industrial users) (Domestic users)	Standard rated Zero-rated
5.	Unblocking/cleaning of drains	Standard rated

HIGHWAYS/ ENGINEERING

- | | | |
|-----|---|--|
| 1. | Charges made to third parties to recover cost of damage to council property | Non-business |
| 2. | Reimbursement of costs of temporary traffic orders | Non-business |
| 3. | Removal of vehicles | Non-business |
| 4. | Erection of directional signs | Non-business |
| 5. | Residents parking permits | Non-business |
| 6. | Supervision fees for inspection of roads & sewers under S18 Public Health Act & S38 of Highways Act 1980 | Non-business |
| 7. | Contributions received towards highway works under S23 of the New Roads Act 1999. | Non-business |
| 8. | Reinstatement work to highway undertaken for public utility companies | Non-business
(unless works requested then standard-rated) |
| 9. | Construction of vehicle/pavement crossing under Section 184 of Highways Act | Non-business |
| 10. | Private street works, alterations, repairs and maintenance | Standard-rated |
| 11. | Reimbursement of cost of maintenance works to highways carried out under S187 of the Local Government Act 1972 | Non-business |
| 12. | Recovery of costs under S76 of the New Roads and Streets Act 1991 in connection with temporary traffic orders. | Non-business |
| 13. | Construction of vehicle or garage crossings (dropped kerb access) | Non-business |
| 14. | Investigation, inspection, emergency and remedial works under S72-75 of the New Roads and Street Works Act 1991 relating to reinstatement of highways | Non-business |
| 15. | Parking meter charges, including access under the Road Traffic Regulations Act 1984. | Non-business |
| 16. | Contributions received towards highway works under S278 of Highways Act 1980 | Non-business |
| 17. | Off street parking, including excess parking, in garages, building and open spaces etc. | Standard-rated |
| 18. | Payments in respect Penalty Charge Notices (PCN's) issued under the Road Traffic Act 1991 | Non-business |
| 19. | Removal of vehicles | Non-business |

20.	Engineering/Design services	Standard-rated
-----	-----------------------------	----------------

§ PLACE

REGNERATION & PLANNING

1.	Planning application fees	Non-business
2.	Copies of planning decision notices	Non-business
3.	Sale of lists of planning applications	Non-business
4.	Statistical & other general planning information	Standard-rated
5.	Sale of aerial photographs	Standard-rated
6.	Listed building consent under the Planning (Listed Buildings and Conservation Areas) Act 1990	Standard-rated
7.	Building control fee	Standard-rated
8.	Provision of information on unused and under-used land	Non-business

§ LAND & PROPERTY

1.	Provision of allotments	Non-business
2.	Resident parking permits	Non-business
3.	Sale of commercial land/buildings (later than three years following completion)	Exempt (unless option to tax Exercised)
4.	Provision of housing under the Housing Act 1985	Non-business
5.	Provision of bed & breakfast accommodation to the homeless Under the Housing Act 1977 and Housing Act 1985	Non-business
6.	Sale of commercial land/buildings (within three years of completion)	Standard-rated
7.	Construction of domestic accommodation for sale	Zero-rate
8.	Legal and valuation fees	Standard-rated
9.	Licences to occupy land	Exempt
10.	Lettings of halls, rooms, pavilions etc.	Exempt
11.	Letting of cattle markets and smallholdings	Exempt

12.	Council housing repairs & maintenance (if tenant has no option)	Non-business
13.	Council housing repairs & maintenance (requested by tenant)	Standard-rated
14.	Leasehold service charges on council houses and flats	Non-business
15.	Leasing of telecommunications on council land	Standard-rated
16.	Event or filming permits on council land	Standard-rated
17.	Provision of holiday accommodation e.g. beach huts	Standard-rated
18.	Admission to premises	Standard-rated
19.	Provision of gypsy residential sites	Exempt

§ EDUCATION

1.	Secondment of primary & secondary teaching staff for education purposes	Non-business
2.	Food and Drink supplied for consumption at local authority educational establishments:	
	a) meals supplied by local authority to pupils	Non-business
	b) meals supplied to staff & visitors	Standard-rated
	c) sales of food and drink to school pupils from vending machines.	Non-business
	d) Sales of food and drink to staff or adults from Vending machines.	Standard-rated
3.	Sale of goods closely related to the provision of education forming part of the normal school curriculum, other than clothing or sports equipment	Non-business when sold in class otherwise than for profit by the school Taxable in other cases
4.	Sale of clothing or sports equipment	Standard rated Will be zero rated for some young children's clothing & footwear if below sizes specified by HMRC
5.	Sale of goods closely related to the provision of education forming part of the curriculum (other than clothing or sports equipment)	Non-business Sold below cost and used in classroom

6.	The supply of primary and secondary education including the recovery of costs from other Local Authorities for the education of their pupils	Non-business
7.	Provision of day nurseries, playgroups etc for under 5's. Only applies where the premises are registered under the Children Act 1989 or are exempt from registration. Supplies from premises that do not qualify would be standard rated recreational activity.	Non-business
8.	Adult education where a charge is made.	Exempt
9.	Training not provided under a statutory obligation.	Exempt
10.	Organised school trips that form part of the school curriculum. Must have a clear educational purpose.	Non-business
11.	Provision of facilities to Youth Club members	Exempt
12.	Other supplies made by youth clubs e.g. catering, bar sales etc.	Standard-rated
13.	Boarding and Transportation VAT status will depend on the education	Non-business/Exempt
14.	Boarding/ accommodation provided without related education.	Standard-rated

§ LIBRARIES

1.	Loan of Library Books	Non-business
2.	Charges for late, lost or damaged loan items	Non-business
3.	Temporary Readers deposits & library membership fees	Non-business
4.	Prison & Hospital library services	Non-business
5.	Supply of services to grant maintained schools	Standard-rated
6.	Sale of books	Zero-rated
7.	Loan of pictures, music library cassettes, records, compact discs etc.	Standard-rated

§ SOCIAL SERVICES

Adult

- | | | |
|----|--|---------------|
| 1. | Welfare services including meals on wheels, home help etc | Non-business |
| 2. | Provision of residential accommodation (LA clients) | Non-business |
| 3. | Old Persons, recuperative holidays | Non-business |
| 4. | Domiciliary Laundry Services | Non-business |
| 5. | Administration fees for care and repair schemes under the Local Government and Housing Act 1989. | Exempt |
| 6. | Rental of telephone, television or radio
(under Chronically Sick & Disabled Persons Act 1970) | Non-business |
| 7. | Supply of distress alarms | Standard rate |
| 8. | Supply of distress alarms (chronically sick or disabled) | Zero rate |

Children

- | | | |
|----|---|----------------|
| 1. | Maintenance of children on remand | Non-business |
| 2. | Day Nurseries & playgroups
(registered under the Children Act 1989) | Exempt |
| 3. | Day Nurseries & playgroups
(other) | Standard-rated |
| 4. | Guardian ad <i>litem</i> (probation) fees | Non-business |
| 5. | Provision of accommodation and maintenance of children
taken into care | Non-business |
| 6. | Counselling and assessment services under the Adoption Act
1979 and provision of temporary board & lodgings to prospective
parents & children | Non-business |
| 7. | Inspection of private children's homes under the Children's Act
1989 and Children's Homes Regulations 1991 | Non-business |

Disabled

- | | | |
|----|---|-----------------|
| 1. | Adaptation of LA's own property for disabled people | Non-business |
| 2. | Adaptation work of privately owned property for disabled people | Standard rate * |
| 3. | Car badges for disabled people | Non-business |

****Certain work can be zero rated***

Other

1.	Catering & other services supplied to staff in residential properties	Standard rate
2.	Issue of vouchers on welfare grounds	Non-business
3.	Supply of Social Workers	Non-business*
4.	Accommodation supplied to guests and visitors in local authority residential homes	Non-business
5.	Issue of vouchers on welfare grounds	Non-business
6.	Provision of care & assessment of needs other than to own clients	Exempt
7.	Funding from Health Authorities that does not constitute the consideration for a supply	Exempt

*** Providing supplied under statutory obligation. If not supply is standard rate.**

MISCELLANEOUS INCOME

1. Grant Income	Non-business
2. Recoupment, reimbursements, contributions to costs etc which do not constitute consideration for any supply	Non-business
3. Compensation	Non-business
4. Secondment of staff	Standard-rated
5. Caretaking services	Standard-rated
6. Vending machine income	Standard-rated
7. Sale of vehicles, equipment, scrap etc.	Standard-rated
8. Charges for private telephone calls	Standard-rated
9. Photocopying & reprographic charges	Standard-rated
10. Copies of documents not supplied under a statutory obligation	Standard-rated
11. Use of photocopier	Standard-rated
12. Supply of printing and stationery	Standard or Zero-rated
13. Sale of postage stamps	Exempt
14. Advertising	Standard-rated
15. Supply of catering to employees	Standard-rated
16. Lost property charges	Standard-rated
17. Rents and Leases of Property & Land	Exempt (with Option to Tax)
18. Sponsorship	Standard-rated
19. Information supplied under the Freedom of Information Act 2000	Non-business (unless information supplied without obligation or can be obtained from another source then standard-rated)

APPENDIX E

The following are zero rated VAT supplies when supplied by a VAT registered entity. They are grouped as follows:-

Group 1 Food

Zero rating applies to most food purchased for human consumption right through the food chain. It starts with the live animals which are used for yielding or producing food for humans being zero rated. The objective is that all supplies of unprocessed food for human consumption are VAT zero rated.

Principle exceptions subject to standard rate of VAT are:-

- Chocolate and confectionery
- Chocolate biscuits (other biscuits and all cakes are zero VAT)
- Savory snacks (crisps, roasted/salted nuts, popcorn etc.)
- Soft drinks, fruit juices and bottled water
- Ice cream, ice lollies & frozen yoghurt
- Alcoholic drinks including alcohol-free beverages
- Chewing gum and bubble gum
- Carbonated drinks
- Pet food

Catering is treated separately from basic food for VAT purposes:-

- Food or drink prepared for consumption on the same premises is subject to VAT
- Hot food or hot drink prepared for consumption for consumption off the premises (takeaway) is subject to VAT.
- Supplies from vending machines follow these catering rules.
- Only zero-rated catering are cold items to be taken away for consumption off the retailer's premises e.g. roll, sandwiches, cold pies, pasties etc.

Group 2 Water & Sewerage Services

These services are VAT zero rated when supplied to a domestic customer. This refers to main water supplies distinct from bottled water. Distilled water is subject to VAT.

VAT on supplies to commercial customers is determined by their classification within the Standard Industrial Classification. In practice service industries (offices, shops, schools etc) are eligible for zero rated water supplies, whereas factories, manufacturers and also farms are subject to VAT on their water & sewerage supplies. It is the supplier's responsibility to apply the correct rate of VAT – in this instance however a water company will default to standard rated VAT upon supplies of water to commercial customers until the customer claims zero rating by completion of a certificate citing a valid SIC code.

Group 3 Books

Generally reading matter is zero rated while stationery is subject to VAT. Included for zero rating are books, newspapers & magazines, maps & charts, sheet music, brochures & leaflets. Exclusions subject to VAT include posters, industrial & architectural drawings & plans, calendars, business cards, greetings cards, tickets, wrapping paper, photographs &

photo albums. The VAT zero rating specifies printed matter, consequently all other media are subject to VAT – CDs, DVDs, and all internet/download material.

Group 4 Talking Books & Wireless sets for the Blind

The zero rating applies to the supply of specific apparatus and accessories to a charity.

Group 5 Construction of Buildings

The zero rating applies exclusively to the construction of new or converted buildings intended solely for domestic or charitable use. This includes homes and institutions providing residential accommodation for children, the elderly, the armed forces, the disabled and the mentally disordered. It does not include prisons, hospitals or hotels. Zero rating is claimed via certification, but the terms are onerous – the law alone on this topic takes up over 3 pages of the VAT Act.

Group 6 Protected Buildings

As with the previous item, the zero rating is restricted to buildings intended for domestic or charitable use. In this case the qualifying work must be a reconstruction or “approved alteration” to a Listed or Protected building.

Group 7 International Services

The heading is misleading; this is a specialist and tightly defined criteria for VAT zero rating – goods which are brought into the EU for the explicit purpose of repair and then re-export from the EU. A key condition is that the customer cannot be from within the EU.

Group 8 Public Transport

The zero rating is for public transport whether by road, rail, sea, or air. The one key criterion is that for the transport to be zero rated the vehicle of whichever mode of transport must be capable of carrying 10 or more passengers. This therefore excludes taxis from the zero rating. However, to cover remote locations such as the highlands and islands of Scotland there is an additional zero rating for all scheduled flights whatever the capacity of the aircraft and also for Post Office operated minibuses.

Group 9 Caravans & Houseboats

This is intended to offer zero rating to inhabitants of these as permanent structures with no mobility, distinct from holidaymakers and leisure purposes. Accordingly, the caravans which are zero rated are of a dimension which prohibits them from being towed on the roads. Similarly, the houseboats eligible for zero rating have no means of self-propulsion.

Group 10 Gold

Group 11 Banknotes

These are two self-explanatory and very limited groups for zero rating.

Group 12 Drugs, Medicines & Aids for the Handicapped

Generally, drugs and/or medicine dispensed by a pharmacy are VAT zero rated. Also, zero rated are certain specified aids to the handicapped. These range from specialised means of transport to specialist adaptations to their private residence to facilitate movement or ease

living conditions. Various medical and surgical appliances for use by the handicapped are also zero rated. There is no blanket zero rating for goods & services to the handicapped, only those articles specified in the VAT legislation may be zero rated and then only upon certification by the handicapped recipient.

Group 13 Imports & Exports

This is a very tight specialist group zero rating Imports & Exports in special circumstances such as international defence projects. It is stressed that this Group does NOT offer zero rating generally to Imports nor Exports.

Group 14 is withdrawn

Group 15 Charities

The basic supply by a charity which qualifies for zero rating is the sale of goods which were donated to that charity. However, sales of articles conventionally purchased by a charity for resale do not qualify for zero rating. Another source of zero rating for charities is the supply to a charity of press and cinema advertisements. There is no blanket zero rating for all charities and charitable activities.

Zero Rating Precedence

Occasionally a supply may be eligible for both zero rating and VAT exemption, e.g. a new construction of a house is zero rated per Group 5 above but also Exempt as a property transaction per Group 1 below. **In these situations, the zero rating takes precedence over the VAT exemption.**

APPENDIX F

Summary listing of items which are VAT Exempt

The significance of VAT Exemption is that Exempt income does not constitute taxable turnover, consequently anyone with wholly Exempt income cannot become VAT registered with the result that they are unable to recover any VAT incurred upon their expenditure.

The following are brief details of Exempt VAT. The basis of the Groups listed is the law set out in Schedule 9 of VAT Act 1994.

Group 1 Land

This is probably the most complex area of VAT. The VAT exemption is for the supply of a right over land, which includes structures upon that land, by sale, lease, hire, rental, licence to occupy, wayleave etc. However, access which does not confer sole rights over a specific piece of land (e.g., admission to exhibitions and events, rights of way and tolls) is subject to standard rated VAT. **Group 1 legislation includes a list of items which are specified as NOT exempt but are VAT standard rated:**

- Off street parking
- Seasonal caravan pitches and pitches for tents/camping
- Holiday accommodation
- Mooring rights
- Fishing licence
- Sporting facilities *
- The right to fell & remove standing timber.

*Non-business wef March 2023 for Local Authorities since the Chelmsford ruling.

The natural VAT exemption per Group 1 Land may be overridden by the 'Option to Tax' as detailed in para 7.2 above. Note that Group 1 of Schedule 9 is the sole Group which offers the facility of the 'Option to Tax'.

Group 2 Insurance

Most insurance related services are VAT exempt i.e. insurance policies.

Group 3 Postal Services

Group 3 provides the VAT exemption for postal services but this exemption is very narrow and applies only to specific services supplied by the Royal Mail.

To qualify for VAT exemption, a postal service must be supplied by the Royal Mail and provided under a statutory monopoly or uniformly priced and available to the public under universal service obligations. Examples are first- & second-class post, non-tracked parcels etc.

This VAT exemption is restricted to the Royal Mail, other couriers' (UPS, FedEx, DPD UK etc) charges are subject to VAT. Where a postal service provided by Royal Mail is subject to a commercial agreement i.e. Royal Mail Tracked Service, charges will be subject to the standard rate of VAT.

Group 4 Betting, Gaming & Lotteries

This group Exempts the placing of bets and the playing of any games of chance for a prize, also participation in lotteries.

Group 5 Finance

The issue and transfer of money and securities (includes stocks and shares, bonds, debentures etc) is Exempt of VAT. Any credit or hire purchase arrangements are also Exempt, as is the operation of any current, deposit or savings account.

Group 6 Education

The provision by an “eligible body” (a local authority is defined in this legislation as an “eligible body”) of education or vocational training, also examinations related to that education/vocational training, is Exempt of VAT. There is no effective legal definition of ‘education’ but for VAT Exemption purposes HMRC regard ‘education’ as meaning a course, class, or lesson in any subject.

Group 7 Health & Welfare

Supplies of health are VAT Exempt when provided by a registered health professional, i.e. by someone who is enrolled in the appropriate statutory register such as dentists, nurses, midwives, medical practitioners, opticians etc. Welfare services are subject to the same stipulation, that the person(s) providing the welfare are professionally registered. In many cases this is automatic because they are only permitted to provide the service when they have qualified. An example is childcare at a nursery or playgroup where the staff have to be professionally qualified before they are permitted to be employed to provide such childcare facilities.

Group 8 Burial & Cremation

The VAT Exemption is for the disposal of the remains of the dead and the associated making of essential arrangements. Headstones, memorial plaques/vases/benches, planting memorial trees or bushes, and entries in books of remembrance are subject to the standard rate of VAT. A further complication is that while cremation and the return of the ashes in an urn or casket is VAT Exempt in all circumstances, burial services supplied by a local authority are not VAT Exempt but are Beyond the Scope of VAT. Funerals for pets are Vatable.

Group 9 Subscriptions to Trade Unions & Professional Bodies

This VAT Exemption applies to membership and affiliation fees paid to trade unions and professional bodies. ‘Professional bodies’ in this context are either a recognised professional qualification (in law, accountancy, various branches of medicine, architecture etc) or trade associations i.e. Local Government Association.

Group 10 Sport, Sports Competitions & Physical Education This VAT Exemption addresses 2 distinct issues:

- The entry fee to a competition where the entire sum of the entry fees is returned to the competitors as a prize(s) is Exempt of VAT. Otherwise the entry fee to a competition would be Vatable.

- The supply by a non-profit making non-commercial body of sports and physical education facilities is VAT Exempt.

Group 11 Works of Art

This is a specialist VAT Exemption which applies to disposal of works of art under limited circumstances, primarily for disposals to The National Gallery, British Museum etc in lieu of the seller paying Capital Gains Tax, Inheritance Tax or Estate Duty.

Group 12 Fund Raising Events

This Exempts from VAT income (that is admission charges, sale of brochures, sale of advertising space in the brochures, and sale of event memorabilia such as T-shirts) to fund raising events by charities. This Exemption was enacted hastily when Live Aid was proposed. It was realised that as the VAT law stood at the time VAT would have been payable on admissions etc to the Live Aid concert.

Group 13 Cultural Services

This Exempts from VAT the supply by a public body (defined here as a local authority or a government department) also the supply by an eligible body (defined here as a non-profit making body) of admission to a museum, gallery, art exhibition, zoo or to a theatrical, musical or choreographic performance of a cultural nature.

Early attempts to define “cultural” collapsed on subjective and snobbery grounds so now any performance which can be classified as artistic qualifies. However, this VAT Exemption is not conferred automatically upon admissions by public bodies. The hosting local authority/government department must notify commercial competitors of their intention to claim VAT Exemption for Cultural Services because of potential distortion of competition by the public body offering cheaper (Exempt of VAT) admissions in comparison to the VAT-bearing admissions by a commercial operator.

In order to claim this VAT Exemption, the public body must notify commercial competitors of their VAT intention, either by writing individual letters to every commercial operator in the area or by taking out advertisements in the local press. Either format must specify a date by which objections to VAT Exemption must be lodged. If no objections are raised by the deadline then VAT Exemption for admission charges may be instigated

If any objection is raised this must be sent to HMRC to adjudicate. In this scenario VAT Exemption may not take place until HMRC have so instructed.

Group 14 Supplies of goods where input tax cannot be recovered

This is a legal technicality concerning purchases where VAT is irrecoverable

Group 15 Investment Gold

This makes investment in gold Exempt.

APPENDIX G

The Lower rate of VAT

Set at 5% the lower rate of VAT primarily applies to domestic supplies of fuel & power. The distinguishing criterion is the quantity of fuel consumed per month. Consequently, it is common, and correct, for a small commercial property to also receive fuel & power at the reduced VAT rate of 5%.

Other minor applications of the 5% VAT rate are to contraceptive products, ladies sanitary products, smoking cessation products, children's car seats, installation of energy saving materials in domestic property, and the installation of mobility aids for the elderly.

APPENDIX H

Beyond the Scope of UK VAT

All supplies from one area to another within the same VAT registration are beyond the scope of VAT. This is because in the view of VAT law nothing has happened. It is only when the VAT registered entity transacts with someone outside of that VAT entity does the VAT legislation apply i.e. contractors, charities, voluntary groups etc.

Other forms of transaction which are non-Vatable because they are beyond the scope of VAT include:

Expenditure

- Supplier not registered for UK VAT
- Invalid document for the reclaim of VAT
- Grants
- Statutory costs such as TV licences

Income

- Compensation
- Grants/donations/contributions where the donator derives no benefit.
- Statutory services performed by local government which are not subject to competition from the private sector such as licensing, off-street parking, Trading Standards, Environmental Health, Planning etc.

APPENDIX I

Frequently Asked Questions

Q1. What is the difference between exempt, outside scope, zero-rated and standard rated supplies?

- **Exempt** – No VAT is charged and input VAT generally not recoverable on the costs directly attributable to making exempt supplies. Local authorities are subject to a 5% limit of total annual input tax (see 2.3). Examples of exempt supplies include rental costs, insurance, health/welfare etc.
 - **Outside the Scope** – Not subject to VAT at all (e.g. fines, statutory fees).
 - **Zero-rated** – VAT is charged at 0% but input VAT is recoverable on the costs directly attributable to making zero-rated supplies. Examples of zero-rated supplies include some food and drink, books, new residential dwellings etc.
 - **Standard-rated** – VAT is charged at 20% for most goods and services.
-

Q2. Do we need a VAT invoice to reclaim VAT?

This is a HMRC requirement. A valid VAT invoice is required to evidence the VAT paid.

Q3. What should we do if the invoice has no VAT or looks incorrect?

Contact the supplier for a corrected invoice. Do not reclaim VAT unless it is clearly shown.

Q4. Do we pay VAT on goods or services from abroad?

- Buying goods from overseas are treated as imports. VAT is not paid to the supplier as import VAT is accounted for on the Council's VAT return using Postponed Import VAT Accounting.
 - Buying services abroad such as consultancy, the overseas supplier will not charge VAT. VAT is accounted for on the Council's VAT return by applying the reverse charge i.e. we declare the VAT as if we were the supplier (output VAT) and reclaim it at the same time (input VAT). In most cases, the position is VAT neutral.
-

Q5. Can we reclaim VAT on staff expenses or on purchase cards?

Only if valid VAT receipts/invoices are provided and the expense is for council business.

Q6. How do I process an Amazon invoice with a VAT rate of 8%?

We have recently received a number of invoices from Amazon with a VAT rate of 8%. In the case of Amazon, the rate of 8% typically applies to mixed media products. There are items that combine books with additional resources such as CD's, online portals or interactive content. Although physical books are generally zero rated for VAT, the addition of supplementary materials triggers a different VAT treatment agreed between Amazon and

HMRC. The agreed rate is 8% and is calculated on the basis of the mixed nature of the products.

Set out below is an extract from an Amazon invoice containing mixed supplies.



Invoice details					
Description	Qty	Unit price (excl. VAT)	VAT rate	Unit price (incl. VAT)	Item subtotal (incl. VAT)
See Inside Your Body ASIN: 0746070055	1	£9.95	0%	£9.95	£9.95
Leaf Man Board Book ASIN: 0063286726	1	£6.64	0%	£6.64	£6.64
Ada Twist, Scientist (The Questioners): 1 ASIN: 1419721372	1	£11.19	0%	£11.19	£11.19
The Rainbow Fish ASIN: 3314015445	1	£6.47	8%	£6.99	£6.99
Shipping Charges		£0.00		£0.00	£0.00
Promotions		-£0.32		-£0.35	-£0.35
Amount due					£34.42
Payment due to Amazon within 30 days					
		VAT rate	Item subtotal (excl. VAT)	VAT subtotal	
		0%	£27.78	£0.00	
		8%	£6.15	£0.49	
Total				£33.93	£0.49

The above invoice includes an entry for zero rated supplies and a VAT rate of 8% for mixed supplies. To process the invoice, you are required to undertake the following calculation:-

Dealing with the VAT rate of 8%, you need to determine the elements that are subject to the 0% and 20% VAT rates. This can be done by first of all grossing up the VAT value of £0.49:-

$$120/20 \times £0.49 = £2.94^*$$

Net amount	£2.45 (£2.94 – 0.49)
VAT @ 20%	<u>£0.49</u>
Gross amount	<u>£2.94*</u>

The difference between the value subject to VAT (£2.45) and the total cost of the value subject to an 8% rate (£6.15) is the amount that is subject to the zero rate of VAT (£3.70). So, to process the invoice:-

Amount subject to 20% VAT	£2.45	
Amount subject to 0% VAT	£3.70	
VAT	<u>£0.49</u>	
Total		£6.64*
Other charges subject to 0% VAT		<u>£27.78</u>
Invoice Total		<u>£34.42</u>

*Mixed supply value of £6.64 is after deducting promotions of £0.35 (£6.99 - £0.35)

Q7. What happens if we get VAT wrong?

HMRC can impose interest, penalties and demand repayment. The value of the VAT error will determine the treatment that is required. It is essential to seek guidance early.

Q8. Can we reclaim VAT on grant-funded work or work for third parties?

Only if the authority is the recipient of the supply and incurs the VAT. Cannot reclaim VAT for purchases made on behalf of others.

Q9. Do we charge VAT to other departments or schools?

VAT is not charged. All departments and schools are subject to the same VAT registration. VAT does not feature in internal recharges.

Q10. Should we charge VAT on this income?

It depends on:

- Whether the activity is business or non-business
- If it is a supply for consideration
- Whether the supply is taxable, exempt, or outside the scope

Examples:

- Hire of room for private events e.g. weddings, VAT should be charged.
- Charging planning application fees (statutory function), No VAT, outside the scope
- Tuition for adult education courses, exempt if provided by an eligible body

Ambitious – Open – Together – Proud

- Vale of Glamorgan Council