

# Annual VAT Training for Schools

2023



HILLINGDON  
LONDON

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# Why is there *now* a need for mandatory VAT training?

- HMRC are taking a greater interest in VAT
- HMRC circulars are being sent to Local Authorities nationally
- Last year the Council received a suspended penalty and an interest charge for omitting VAT from catering sales from an LBH maintained school
- All penalties and interest charges **WILL** be recharged back to the school
- Each penalty or suspension period affects the **WHOLE** Council, not just the individual school
- VAT coding on sales and purchases need to be correct!



# Course Objectives

To help you:

- Understand on how VAT works - Refresher
- Make informed VAT decisions
- Manage the Council's VAT position
- Ensure the Council complies with legislation



# Tips of the day

The answer to any VAT question is....

“it depends”

And,

When assessing the VAT rate for income, always assume it is standard rated until you can find a relief.



# VAT Philosophy

- VAT is a broad based tax
- Meant to be a tax on all consumer expenditure
- It is instant tax
- It is a tax on transactions (Supplies)
- It is a cumulative tax



# Scope of VAT

VAT shall be **charged** on any **supply of goods or services** made in the **United Kingdom** where it is a **taxable supply** made by a **taxable person** in the course of **furtherance of business**.



# Taxable Person - Refresher

- Registered for VAT
- Anyone in business can register for VAT
- Must register if turnover >£85k
- Must charge VAT if registered
- If company is not registered, they cannot charge a rate of VAT
- VAT should not be applied to internal company transactions where they share the same VAT registration i.e LBH to LBH



# Current VAT Rates - Refresher

Included in the return:

- Standard rated – 20%
- Reduced rated – 5%
- Zero rated – 0%
- Exempt – 0%

Excluded from the return:

- Out of scope

Old VAT rates should not be used!





# Zero Rated Examples

- Books
- Basic food items
- Water
- Uniform with school logo
- Transportation (10 seats and over)



# Exempt Examples

- Insurance premium – Note IPT is not recoverable
- Childcare vouchers
- Bank charges
- Childrens swimming lessons
- Land and Lettings (exceptions apply)
- Training (provided by an Eligible body)



# Out of Scope Examples

- Purchases/sales to LBH - Supplies within same VAT registration
- Donations (Nothing in return)
- Grants
- Compensation
- Salaries and wages paid to staff
- Linked closely to statutory education (School trip for students)
- Supply by someone not registered for VAT
- Where no VAT documentation has been obtained



# Fundamentals - Refresher

- The supply must be for school activities!
- To claim back VAT you need a proper VAT invoice
- Normally you need to use school funds to make purchases (Private funds separate)
- Do not facilitate tax evasion
- Make sure you treat sales properly
- Understanding nil tax rates is important
- Using the correct VAT coding when recording sales and purchases
- Do not just post to VAT codes where unsure – ask!
- Where errors occur, journals will need to be posted to fix. Potential of 4-year retrospective adjustments.
- Recognising income and expenditure correctly and posting into the correct quarter.



# School VAT Positions

Community, Foundation and VC schools all treated as owned by LA for VAT purposes.

Voluntary Aided schools – Land and Building are owned by the Governing Body, but the education is funded by the LA.

VAT cannot be reclaimed on capital expenditure; however, VAT can be reclaimed on revenue expenditure.

If the grant has not been received by the Diocese, and the invoice/s need to be paid. The invoices need to be treated as outside the scope of VAT



# Default FMS Codes

**Do not rely on the historical default ledger codes**



Check the VAT rate each time an invoice is entered into the system.



# Quarterly VAT Submissions

The Corporate VAT Team will intervene and adjust quarterly submission figures should errors be found where input VAT has been overstated or where output VAT has been understated.

This will cause variances from quarter to quarter and will need to be monitored.

Items that will be adjusted by Corporate VAT Team are:

- Incorrect VAT rate chosen for sales income
- Incorrect VAT rate chosen for purchase expenditure

Items that will not be adjusted by Corporate VAT Team are:

- Income and expenditure that has been incorrectly coded to zero, exempt and outside the scope where VAT ££ is not being underpaid or overclaimed.

The school will need to process a journal to account for the VAT adjustments. These need to be posted into the subsequent open quarter.

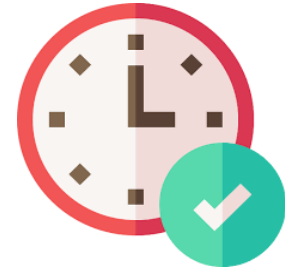
**VAT needs to be recognised in the correct period.**



# Quarterly VAT Submission - Reminders

Quarterly VAT report needs to be:

- Submitted to your Finance Officer on time
- In the correct format
- Signed and dated



**The Corporate VAT team will not hold the council VAT return waiting for late submissions.**

Implications of submission not included:

- Impact on cash flow
- Disclosure to HMRC naming the school and including details such as reasons why
- School will be closely monitored by the Corporate VAT Team
- Potential monitoring from HMRC
- Possible penalties levied in line with late returns. Payable by the school.





# Quarterly VAT Sampling

VAT sampling has evolved in line with HMRC.

The Corporate VAT Team will continue to sample your school on a yearly basis provided:

- Correct VAT rates are used
- Reports are provided on time
- VAT invoices are obtained to support each purchase

Typically, the sampling will feature two parts:

1. Copy invoices
2. Coding checks

Should you **not** be in receipt of a VAT invoice – DO NOT RECOVER THE VAT!  
Should you be unsure about which VAT code to use – PLEASE ASK!



# The Importance of a VAT invoice

- A VAT invoice is your source document to prove that the VAT you paid over to the supplier has been paid to HMRC
- If you reclaim VAT without a proper VAT invoice you are committing fraud!!
- There is no 1p/2p threshold, you can only reclaim the amount of VAT detailed on the VAT invoice
- Order confirmations, delivery notes and pro-formas are not accepted documentation
- Purchases made by credit card are not an exception
- Recognise the correct rate of VAT
- If in doubt, please ask!



# VAT Invoice Requirements

Invoice information	Full invoice (purchases over £250)	Simplified invoice (purchases under £250)
Unique invoice number that follows on from the last invoice	Yes	Yes
The supplier's name and address	Yes	Yes
The supplier's VAT number	Yes	Yes
Date	Yes	No
<a href="#">The tax point (or 'time of supply') if this is different from the invoice date</a>	Yes	Yes
LBH's name and address	Yes	No
Description of the goods or services	Yes	Yes
Total amount excluding VAT	Yes	No
Total amount of VAT	Yes	No
Price per item, excluding VAT	Yes	No
Quantity of each type of item	Yes	No
Rate of any discount per item	Yes	No
<a href="#">Rate of VAT charged per item - if an item is exempt or zero-rated make clear no VAT on these items</a>	Yes	Yes
Total amount including VAT	No	Yes



# Mixed Supply Invoices

Items need to be recognised with the correct VAT rate.

Where a mixed supply occurs, the invoice needs to be split.

You **should not** enter the net and manually adjust the VAT.



# Invoices With Odd Rates of VAT

It is a rare occurrence, but you may receive an invoice with a rate of VAT at 8% or 13%

Usually due to a mixed supply of vatable goods being sold as one item.

As long as you have a VAT invoice that meets the requirements as set out by HMRC then this VAT is recoverable.

Due to system limitations:

1. Enter the invoice into your accounting software as 20% and adjust figures to match invoice.
2. Send a copy of the VAT invoice to your Link Officer.

**If invoice is not sent to Link Officer, VAT will need to be reversed.**



# Overseas Purchases

Since Brexit, the way overseas purchases are accounted have changed.

How to account for overseas purchases:

1. The overseas company needs to be provided with the LBH VAT registration number prior to purchase. This will then zero rate the sale.
2. Send the VAT Accountant a copy of the invoice to comply with accounting via the reverse charge.

If the overseas company are not provided with the LBH VAT registration, then VAT will be charged at the country of origin rate. This cannot be reclaimed and the school will have to forgo the reclaim.



In all cases, the VAT team need to know about foreign goods and services as they have to account for it correctly on the VAT return



# HMRC Case

## Background

A company recovered £5.6m in VAT. Later it transpired that the supplier invoices were invalid. There was no VAT registration number, and it did not name the company as the customer.

The supplier was later found to not be registered and had not paid the output tax on the transaction to HMRC.

## Update

HMRC disallowed recovery of input tax initially on the basis of connection to fraud.

Court decided disallowable on the basis invoices were invalid

## Impact and action

- Highlights importance of verification checks and evidence
- Alternative evidence cannot be accepted in place of an invoice.



# Output VAT - Sales

The onus is on LBH to allocate the correct VAT treatment





# Questions to Consider When Deciding Which VAT Treatment to Use

- Understand the underlying supply of the transaction
- Who is receiving the supply?
- Who is paying for the supply?
- Why are the goods/services being sold?
- Each transaction needs to be treated in isolation. Just because an item was purchased from a business and treated as out of scope, doesn't mean if you sell it the same VAT treatment will apply.
- Prior to agreeing new contracts/services or amendments, the VAT treatment needs to be ascertained as it could seriously impact the VAT position and the viability of the income stream.
- If in doubt, please ask!



# Commonly miscoded items

- Grant income
- Nursery income
- Staff reimbursements
- LBH to LBH transactions
- Compensation received from insurance company
- Use of old VAT rates

If in doubt, please ask!



# Does your VAT invoice meet HMRC's requirements?

- Are you raising sales invoices off the system?
- How are they being recorded on the system?
  - Are they being recorded at the time of payment?
  - Or when they are being raised?
- Do your templates meet the standards?
- What format are you sending the invoices in?



*Should you require assistance with compliance please contact Corporate VAT Team*



# Tax Points

A tax point is the date VAT becomes due on a particular transaction.

The VAT on the transaction must be included in the VAT return that date falls.



Example:

Tax point: 5<sup>th</sup> October 2023

Must be included in: Q3 23/24



# Tax Points

## Basic Tax Point

Goods – date delivered, made available or collected.

Services – date services performed

## Actual Tax Point

Early override – receipt of payment or tax invoice issued before basic tax point

Late override – tax invoice issued within 14 days of the basic tax point

Deposits and balance paid are considered separately; each will have a different tax point



# Onward Supplies

The onward supplies of goods and services needs to be reviewed.

- VAT needs to be recognised on ‘recharges’, ‘onward supplies’ or ‘their half’ \* exception where other entity is LBH
- The ‘sharing’ of bills and services are not allowable exemptions for VAT

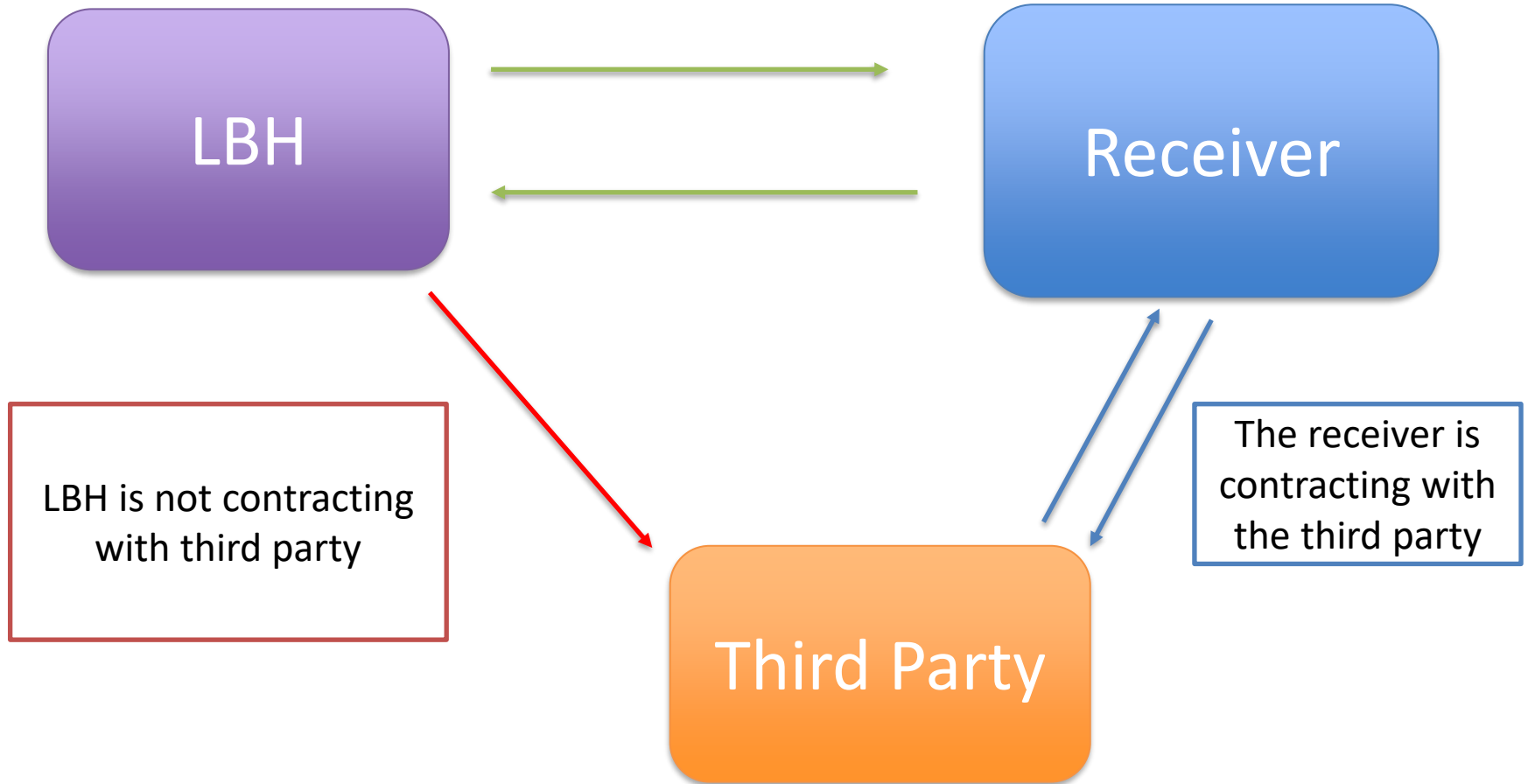
If VAT is not charged correctly on the sales made you will either;

- Need to raise a VAT only invoice and try to collect the omitted VAT or,
- Pay the VAT owed to HMRC from your budget
- Potential for penalty and interest assessment levied by HMRC

*Please check your records and advise the Corporate VAT Team via email.*



# Onward Supplies



# Catering Contracts

Two types of catering contracts:

## Principal:

Meals are produced by contractor and sold to the school, parents, pupils and adults.

VAT would be chargeable on all items. Not an incidental supply to education.

## Agent:

Meals are produced by contractor and sold to the school. The contractor serves the meals and collects the income **on behalf of the school**.

Provision of meals to pupils are incidental to education – out of scope.

School responsible for VAT treatment on income collected.





# Lettings

Lettings are complex.

Always assume that they are standard rated until a relief is found.

Questions to ask prior to the let:

- What is being hired?
- Why is it being hired?
- What are they expecting for the hire?

Room lets and facility lets are completely different!

If you are in doubt, please ask!



# Leisure services update

HMRC have released updated guidance for Local Authorities.

The Corporate VAT Team are currently reviewing the legislative updates and will conduct a fact-finding exercise in the coming months.



# School Trips & Extended Clubs

## School Trips

- Trip needs to be closely related to the curriculum and for the pupils of the school only
- Trip to be recharged to parents/carers at cost
- Income from parents/carers to be coded as out of scope
- Input VAT fully recoverable
- If trip is charged to parents/carers to make a profit, then this is a standard rated supply.



## Extended Clubs – Wrap around care

- Clubs to be for pupils of the school only and charged at/below cost and run by the school
- Income from parents/carers to be coded as out of scope
- Input VAT fully recoverable



# Donations and Contributions

Donations are given freely with nothing expected in return.

Donations and/or grants can contain conditions  
e.g. PTA funds donated to purchase new science equipment.

If the donor benefits from the donation, then this is a consideration for a supply of goods or services.

Contributions can be a suggested amount and you can receive something in return\*

e.g. £5 entry to the school play performed by the pupils.  
\*If you refuse entry for non-payment or payments under the suggested amount, then this is not a contribution!

True donations/grants/contributions are outside the scope of VAT.



# PTA Funds – Correct Accounting

The correct way to account for PTA funds that have been donated to the school to ensure the full VAT reclaim is available:

1. Transfer the donated funds from the PTA private fund to the school bank account.
2. The school purchases the goods/services receiving a VAT invoice addressed to the school.
3. The school pays the invoice and retains ownership of the asset/services purchased.
4. Input VAT can be reclaimed

If the school purchases the item and charges the PTA the net cost, or if there are questions over who owns the asset it could be viewed by HMRC as tax evasion!



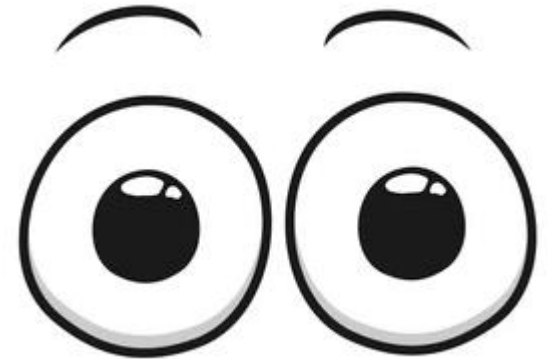
# Updates to VAT training

- Introduction of the annual schools mandatory training session last year
- NEW e-learning module in creation stage for new starters
- Potential to be rolled out to further



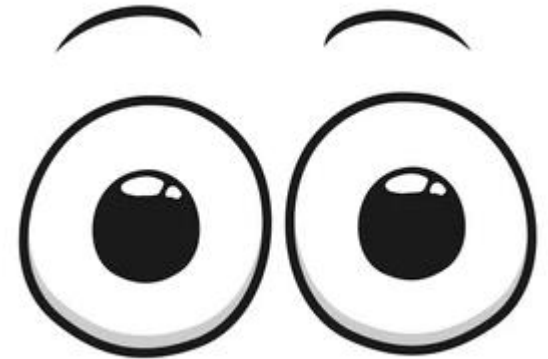
# The Bigger Picture.....

- School VAT submissions are merged into the main council VAT return
- Income and expenditure recognised by the school are also recognised by the council
- Last 12-month period £41.5m has reclaimed from HMRC - input VAT
- Last 12-month period £2.5m has been declared to HMRC - output VAT
- The partial exemption threshold is monitored by the Corporate VAT Team



# The Bigger Picture.....

- HMRC's Business Risk Review is now complete
- VAT returns are being intermittently reviewed by HMRC upon submission
- HMRC have indicated that the next review will include schools
- VAT inspection on the horizon??





# HMRC - Disclosure

Disclosures require a large amount of information.

- Name of school
- Amount of VAT
- Reason for error
- Steps taken to correct error
- Assurance error not to re-occur



# HMRC Penalties

Penalties are levied against:

- Late VAT submissions
- Underpayments, overclaims, incorrect rates
  - 100% of VAT underpaid or overclaimed
  - Plus 3% interest



Each penalty has a different a treatment and affects the whole council - not just the department/site where the error/late submission occurred!

The school will be liable for any penalties and interest chargeable!



# Criminal Finances Act – Corporate Criminal Offence

The Council will be criminally liable where it fails to prevent those who act for, or on their behalf, from criminally facilitating tax evasion.

Only 2 things need to happen:

1. Fraud committed
2. Facilitated by someone associated with the Council

Unlimited fines of the Council if found liable.

If you commit or facilitate tax evasion you are personally liable



# Resources Available

- Schools VAT manual – updated October 2022
- HMRC webpages
- Schools Finance Team
- Corporate LBH VAT Team

Where VAT is concerned, no question is a silly question – please ask!



# Contact Details for LBH VAT Team

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