

8. Taxation - VAT

8.1 Introduction

VAT is a tax levied on goods and services by the government and collected by HM Revenue and Customs. When individuals make a purchase, they often have to pay VAT on top of the basic price. The London Borough of Barnet is able to reclaim from HM Revenue and Customs the VAT it pays. In order to have this benefit however, the specific regulations must be followed by the authority.

Schools receive their Annual Budget Share net of VAT. As schools have to pay VAT on top of the basic price of the majority of purchases they make, the authority will make a VAT claim to HM Revenue and Customs on their behalf each month. This will enable a reimbursement to be made to each school for the value of VAT expenditure they have incurred. All LA maintained schools are seen to be acting as the agent of the authority in respect of purchases funded via LA Budget Shares. As such, it is the responsibility of each school to ensure the correct accounting treatment of VAT.

As all LA maintained schools are part of the London Borough of Barnet, transactions between schools, and other council departments, should not include VAT. Schools do not need to meet the VAT threshold for them to recover and charge VAT and do not need to register for VAT with HM Revenue and Customs.

VAT levied on purchases (expenditure) is known as input tax. VAT levied on goods for sale (income) is known as output tax. At the end of the month, schools must calculate the value of both input and output tax paid and received in that period. These amounts are then included on the schools VAT Claim Summary return to the authority. Should the value of input tax exceed the value of output tax (as will normally be the case) then the authority will reimburse the school's bank account with the difference. On rare occasions, the value of a school's output tax for a period might exceed the value of its input tax. In this circumstance the school must still record each value on its Posting Summary but must also forward a cheque, made payable to the London Borough of Barnet, for the net VAT income in the period and return it to the Schools Accountancy Section.

Certain areas of VAT can be complex and whilst the following sections set out to provide a general guide to schools, advice must always be sought if in any doubt over the required treatment of VAT.

8.2 VAT on Expenditure (Input Tax)

As schools pay invoices locally from their bank accounts, they need to know which purchase items are eligible for recovery of VAT together with the details that are required on the supplier's invoice to do so.

All purchases that schools make will be subject to one of five VAT categories:

Standard Rated (20.0%)

Lower Rated	(5.0 %)
Zero Rated	(0.0%)
Exempt	(0.0%)
Non-Business	(0.0%)

No VAT will be charged on items that are Zero Rated, Exempt or Non-Business. Where VAT is charged and the invoice is a valid VAT invoice (see below) then the VAT must be recovered.

Invoice / Receipt Requirements

To recover Input Tax you should have a VAT invoice. There are two types of VAT invoice, depending on whether the value is up to and including £100.00, or greater than £100.00.

If the value of goods (inclusive of VAT) exceeds £100.00, a full VAT invoice must be obtained. The following must appear on the invoice to enable the VAT to be recovered:

- a) Name and address of the supplier
- b) VAT registration number of the supplier
- c) Date of the supply (tax point) and issue date of invoice
- d) Customers (school's) name and address
- e) Description of the goods or service supplied
- f) Total VAT chargeable
- g) Total value of the supply, excluding tax
- h) Rate of any discount
- i) the Unit Price

If no VAT number appears on the invoice, no VAT should be paid to the supplier, unless it has been confirmed that the supplier is registered for VAT and the VAT number obtained and written on the invoice.

Where the value of goods is less than £100.00 (inclusive of VAT) a less detailed invoice (e.g. a till receipt) can be used to recover Input Tax. Nevertheless, it must show:

- a) Name and address and VAT number of the supplier
- b) Description identifying the goods or service
- c) Value of the goods including VAT
- d) Invoice/receipt date
- e) Rate of VAT charged

Where the invoice/receipt conforms to the above VAT may be recovered. This means that only the net amount of the transaction is charged to the School's Delegated Budget and the VAT element of the purchase recorded to enable reimbursement by the authority at the end of the month.

Where the invoice/receipt does not identify the VAT element but it is clear that VAT is recoverable, the following formula will help to identify the net and VAT elements: -

Invoice/Receipt Value (a)	Formula	VAT Element (b)	Net Value (a – b)
£35.90	1/6	£ 5.98	£ 29.92
£47.53	1/6	£ 7.92	£ 39.61
£17.63	1/6	£ 2.94	£ 14.69

If not all of the invoice/receipt items are Standard Rated then it is the sum of the Standard Rated items only that is subject to the above calculation.

Examples of a typical invoice and receipt are shown in **Appendices A and B**.

VAT may also be recovered on reimbursements to members of staff, providing that the receipt surrendered contains the necessary information (see above)

Wholesaler's till roll receipts are acceptable as VAT invoices/receipts only if they have printed on them the full details required: specifically:

- a) If the individual items are not fully described, a product code of at least two digits must be present to identify different classes of goods
- b) For items costing £100.00 or more either a full description or a specific product code must be provided.
- c) A product code list must be provided to customers.
- d) The receipt is not made out to an individual

Invoices and receipts for petrol and DERV are subject to special arrangements. Invoices or receipts for more than £100.00, if pertaining to fuel put into a vehicle, should feature the vehicle registration number instead of the name and address of the recipient.

Payments including VAT should not be made without a valid invoice. If the VAT on the supplier's invoice is incorrect the school should return it to the supplier and seek a corrected invoice. The school must not alter an incorrect invoice nor pay it. If the error in the calculation of VAT is within £1.00 then it is acceptable for the school to pay the invoice and recover the VAT identified on the invoice.

If the school is offered a discount on condition that it pays the invoice within a given time, e.g. ten days, then the amount of VAT recoverable is based on the discounted net amount even if the school does not take up the offer of the discount. Normally these invoices have been calculated on the discounted total.

Details of a supplier's invoice offering a discount might look like this: -

Description	Price £	VAT Rate	VAT £
1 x Unijet Mask	100.00		

Discount	10.00		
Net Cost	90.00	20.0%	18.00
<hr/>			
Goods	100.00		
VAT	18.00		
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Total	118.00		

TERMS: 10% discount if paid within ten days of invoice date.

If the school paid the supplier inside ten days then the Net cost to its Delegated Budget would be £90 (£100 less 10% discount). The VAT recoverable would be £18.00 (being 20.0% of the Net price of goods after discount). The school would draw a cheque for £108.00.

If the school failed to take advantage of the discount it would draw a cheque for the invoice amount of £120.00, recover the VAT of £20.00 and charge the Net amount of £100 to its Delegated Budget.

Purchases Financed from Unofficial Funds

If the school has taxable supplies in any of its private/unofficial funds above the annual VAT threshold (£73,000 Nov 2011) then it may be required to register that fund for VAT with HM Revenue and Customs.

If the fund is registered for VAT then the school should recover VAT on its purchases from that fund and levy VAT on income if appropriate. For information on how to register a private/unofficial fund please contact the Schools Accountancy Section.

If not separately registered, most purchases that are financed through private / unofficial funds can be made via the schools Budget Share Account to enable recovery of VAT. The procedure for doing this is as follows: -

- a) The goods/services must be ordered on behalf of the Authority, e.g. an official school order is placed quoting the LBB VAT Registration Number
- b) The invoice is paid from the School's Budget Share Account charging the most relevant expenditure code
- c) VAT on the purchase is included in the schools end of month VAT Claim to the Authority
- d) The net amount of the purchase is recovered from the private/unofficial fund and paid into the Budget Share Account and recorded against code I13 (Donations / Private Funds).

However it should be noted that any goods acquired in this manner become the property of the school / LA and not the property of the private / unofficial fund.

This dispensation does not apply to capital work to school premises at Voluntary Aided schools, which is the exclusive liability of the VA Governing Body. As such it is the Governors Account that should be used for all capital premises related income and expenditure and not the school's Budget Share Account.

8.3 VAT on Income (Output Tax)

Certain items of income to the school are subject to Output Tax. When this occurs, the VAT element of that income must be identified in the school's accounting system with the net amount only being credited to its Delegated Budget.

It is possible schools will have a complex range of income items. Whilst the supplier's invoice will usually identify VAT on school expenditure, if the school is collecting money into its Delegated Budget, the onus is on the school to determine whether or not VAT is applicable. The following sections give further details.

General Principles for Charging VAT on Income

Schools can treat certain goods and services sold to pupils as non-business (i.e. do not have to charge VAT) **provided** they are deemed to be 'closely related' to the provision of education. In order to qualify as being 'closely related' the items being sold to pupils must satisfy three principal conditions -

- They are necessary for delivering education to the pupil
- They are used for the delivery of education that is part of the school curriculum
- They are provided for the direct use of the pupil in supervised lessons

Provision of course materials, meals, school visits and trips are generally considered to fall within this criterion and as such can be sold to pupils without charging VAT providing they are sold at cost.

Generally, goods and services that the school might provide which are not deemed closely related to the provision of education are subject to VAT (unless exemption is available elsewhere due to the nature of the supply). Examples of such goods and services include: -

- Sales of goods from school shops
- Sales from non food vending machines
- Sales of computers
- Sales of goods that are not needed for regular use in class

The following pages address specific areas of income in order to clarify whether or not the income source is deemed 'closely related'

Invoices sent out by schools should satisfy the criteria for a valid VAT invoice as outlined above and should display the London Borough of Barnet VAT registration number (229 2360 70).

Childcare and related services provided by schools including Children's Centres

Schools and Children's centres provide services for children and parents, as set out below childcare related services are exempt from VAT –

Extract from HMRC Reference: Notice 701/2 (February 2007)

a) 2.2.1 Services relating to care and protection of children that are exempt

Exemption applies to services supplied by one of the providers detailed in [section 3](#) that are directly connected with the care and protection of specific children, rather than children in general. Examples include:

- care provided in a children's home
- **day care services such as those provided by a nursery, playgroup or after school club (but not activity based clubs such as dance classes etc)**

This would be taken to mean that the School/Centre's childcare service and other childcare activities such as mother & toddler groups, baby massage etc are exempt.

Centres are advised not to charge for refreshments or consumables used but regard any charge as a fee or contribution to the day care service. Centres may ask for donations towards refreshments, consumables etc but these must be purely voluntary.

Community focussed extended school activities

Activities for parents only but relating to the care and protection of children are unlikely to be on a fee paying basis but should a charge be made then they will be exempt if they fall in the definition above.

Activities provided directly by the School/Centre for the members of the community at large are likely to be either recreational e.g. Dance classes, yoga or educational e.g. IT skills classes. Any income collected for these activities would be exempt from VAT.

Letting of Centre premises or facilities to community groups or to providers of recreational/leisure activities e.g. dance, yoga etc is subject to VAT as set out in section on Lettings in this guidance.

The table below gives some more detail and examples;

Extended Service	VAT Implication
Childcare – Nursery, Pre-school, After School Club, Childminders	These activities are classed as Non-business and therefore VAT should not be charged on fees collected
Out of hours activities – Study support, Sport partnership, Gifted & Talent, Arts, Youth Service etc	Income from fees for these activities are exempt from VAT
Family & Parenting Support	Fees are unlikely to be collected for

	these types of activities. Any grant income received is outside the scope of VAT.
Community Access – ICT, sports, Adult education, Vocational Learning	Education provided to the wider community (rather than just the pupils of the school) is exempt from VAT. If ICT facilities are hired out for general use (rather than as part of a course) then the income would be standard rated and VAT should be charged. This would be classed as a letting.

Income from Lettings

Lettings of accommodation for events that do not require the use of additional or specialised equipment are exempt from VAT. The letting of rooms and halls involving the use of catering facilities are normally exempt from VAT providing the Council is not also acting as caterer.

The letting of sports facilities are also exempt if: -

- a) The facilities are let for a series of sessions provided all the following conditions are met
- * The series consists of ten or more sessions
 - * Each session is for the same sport or activity
 - * Each session is in the same place
 - * The interval between each session is at least a day and not more than 14 days
 - * The full value of the invoice(s) must be paid. Instalments are acceptable
 - * The person to whom the facilities are let has exclusive use during the sessions

Or

- b) It is for a single letting of sports facilities for a continuous period of over 24 hours to the same person.

Events predominantly involving the use of special equipment, such as lighting equipment or a swimming pool are generally Standard Rated.

The provision of conference facilities beyond the letting of space in a building is Standard Rated.

Income from Admission Fees/Ticket Sales

Charges for events such as school plays, concerts and sports days can be classified as one-off fund raising events and so treated as non business supplies.

Income from Sale of Equipment and Furniture

If you sell any item of equipment or furniture VAT must be charged on its sale.

Income from Sale of Materials to Pupils

If a school sells educational materials to its pupils as part of a course of education and does so at or below their cost then such sales are outside the scope of VAT. If they are sold at a profit then the sale is deemed Standard Rated.

Educational materials include pens, ink, exercise books, drawing materials, musical/mathematical instruments and materials used in craft classes but excludes laptop computers.

Income from Sale of School Uniform

The size of the garment determines whether the sale of uniform should be treated as Standard Rated or Zero Rated. In general, if the size of the garment is for a child under 14 years of age then the sale is Zero Rated.

For sales of uniform to children needing larger sizes, the sale is zero rated only if the garment is designed / intended for a child within the following measurements

	Boys (cms)	Girls (cms)
Height	163	161
Chest	84	85
Waist	70	69
Hips	85	90
Arm	59	57
Inside Leg	77	76

The sale is standard rated if the garment being sold is designed / intended for a child above these measurements. The invoice from the school's supplier should distinguish between the number of units that are zero and standard rated.

Income from Sale of School Publications

Income from sale of the following, produced by the school, is Zero Rated: -

- Books
- Booklets
- Brochures
- Pamphlets
- Leaflets
- Newspapers
- Journals and periodicals

Income from Sale of School Photographs

b) Sales of photographs by the photographer direct to pupils

Any commission received by the school from the photographer is consideration for the supply of facilities made available to the photographer. Schools must treat the receipt of such commission as subject to VAT at standard rate. As such the commission income should be paid into the school's Delegated Budget.

c) Sales of photographs by the photographer to the school

Where the contractual arrangements provide that the supply of photographs is to the school for the onward supply to the pupils/parents, then the school must charge VAT on the sale of the photographs to the pupils/parents. Schools should recover VAT on the invoice from the photographer in the usual way.

Income from Catering

Catering supplied to staff and visitors (other than students, pupils or other educational establishments) is Standard Rated even when the sale is made from an outlet mainly used by students or pupils.

If the school arranges for a contractor to supply catering either on its own behalf or as an agent, the VAT treatment depends on whether the contractor is acting as a principal or as an agent.

If the terms of the contract specify that the caterer is the principal then the meals supplied are standard rated and the caterer will charge VAT on the supply.

If the terms of the contract specify that the caterer is the agent of the school the meals are Non-Business. Meals provided to staff and visitors (other than students, pupils or other educational establishments and duty meals to staff) however, remain Standard Rated.

Income from Sale of Food and Drink from Vending Machines

Sales of food and drink to pupils from vending machines located on the school premises are deemed 'closely related to the supply of education' and therefore rated as non-business. Whilst technically, the sale of food and drink from vending machines to staff and visitors is Standard Rated, in practical terms schools are not expected to apportion income from this source between Standard Rated and Non-Business sales elements. Therefore schools can treat all income arising from the sale of food and drink from vending machine located on the school premises as Non-Business. Similar rules apply to sale through kiosks or school shops.

Unless identified as VAT exclusive, all income received from a vending machine company is standard rated (e.g. payment for using the school's facilities or a share of the sales collected by the company)

Income from Non-food Vending Machines

Sales of items such as sanitary towels are Lower Rated (5% VAT).

School Trips

School visits, holidays, sporting and recreational courses are included in the definition of education. Contributions from parents for supplies closely related to the provision of education are Non-Business provided that these are charged at or below cost. Where the school makes a profit it could become subject to the 'Tour Operators' Margin Scheme', in which event the school should seek advice.

If the school engages the services of a travel company, rather than acting directly as a purchaser, it is not a supply by the school. In such a case the school would act only as an agent, collecting and holding school journey money on behalf of pupils. The Travel Company would be the supplier and not the school.

Donations and Grants

Where a school receives a donation it is outside the scope of VAT provided the school does not reciprocate by providing something to the donor in return. Grants from third parties including lottery grants are also outside the scope of VAT provided there is no underlying contract for services to be supplied.

d) Sponsorship

Sponsorship can be in the form of money, goods or services.

The decision whether or not sponsorship income is subject to VAT depends on the activity concerned. The following outlines the position where the sponsorship activity is viewed to be "business".

Where there is a written or oral agreement or understanding that the sponsor will receive some form of benefit, the school receiving the sponsorship income should charge VAT. A business sponsor may be able to recover the VAT charged to them by the school subject to their own VAT circumstances.

Where the sponsor's support is freely given and requires nothing tangible in return, the school does not need to charge them VAT and the income can be treated as a donation.

Private Telephone Calls and Photocopying

The charges collected by schools for making personal calls from school telephones, photocopying or for making personal facsimiles from school fax machines, are Standard Rated. For example, should a periodic collection/count of money from this activity arrive at £120.00 and then the school may only take credit for the net amount (£100), the difference being recorded and declared as Output Tax. Where the school rents a payphone from British Telecom or another supplier any income collected via this medium is also Standard Rated.

Hire of Equipment and Vehicles

Hire of school equipment and vehicles e.g. mini bus, photocopier, computer is Standard Rated.

Donations & Parental Contributions

Donations from School funds and parental contributions are exempt from VAT.

Other

Income from locker hire, match fees, library fines, raffles and bank interest is also exempt.

8.4 VAT on Refunds of Expenditure

In the event of a school receiving a refund from a supplier, if VAT was charged on the goods or service originally paid for, then VAT must be accounted for on the refund income. For example, if the school receives a refund from its Electricity Provider for £587.50 in respect of incorrect/over charging, as VAT would have been charged on the suppliers invoices the school must account for VAT of £97.92 on the refund, crediting its Delegated Budget with the net amount only (£489.58).

8.5 Inspection of School's VAT Accounting Records

The authority's VAT claims are subject to inspection by HM Revenue and Customs. Visits to council premises (including schools) take place in order to examine and verify correct accounting of VAT. The Council's auditors and VAT & Tax Accountant also have reason to inspect the VAT records of the school. In cases where it is found that the school has recovered VAT incorrectly an adjustment may be made charging the amount wrongly claimed to its Delegated Budget.

Accounting records must be kept for a minimum of six financial years. Records cover all documents relevant to VAT transactions and include:

- Purchase invoices
- Petty cash vouchers and receipts
- Orders and delivery notes
- Bank statements and paying in slips
- Income receipts and invoices

Non compliance (e.g. failure to preserve VAT records) can attract penalties. In addition, HM Revenue and Customs can estimate and charge the cost of VAT errors going back six years prior to the original error found. Under the Scheme for Financing Schools the authority can recover penalties imposed by HM Revenue and Customs as a result of school negligence.

8.6 Contact Points

In the first instance queries about matters not fully covered in this section should be made to Kim Garrod, Senior Management Accountant, School's Accountancy Section on 020 8359 7225, who if necessary will contact the Council's VAT Taxation adviser.