

Essex County Council VAT Manual

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1. The Purpose of This Manual

This manual is designed to bring together all current VAT legislation and guidance relevant to the County Council. It is hoped that you will find it a useful reference document which will answer most of your questions regarding VAT. No guide can, of course, comprehensively cover every possible transaction that might be undertaken by the Council, neither can it state the law definitively - this is a matter for tribunals and the courts.

If you have any questions which are not covered by this VAT Manual, then please contact Financial.Accounting@essex.gov.uk.

The guide explains VAT as it applies to the County Council and describes the VAT treatment of types of transaction that are common to most Service Groups.

Appendix B shows the VAT liability for local authority services.

2. An Introduction to VAT

Value Added Tax (VAT) is a tax on the sale of goods and services. The tax is administered by His Majesty's Revenue and Customs (HMRC).

The County Council can reclaim from HMRC nearly all the VAT added by suppliers to their invoices, which the County Council has paid. VAT on purchases is known as input tax.

Equally the County Council is responsible for adding VAT on to the charges for many of the goods and services that it provides. This VAT is collected by the County Council and paid over to HMRC. This is known as output tax.

The County Council's VAT registration number is **104 2528 13**, (when quoted to an overseas supplier, this should be prefixed by **GB**). This registration covers all official activities of the County Council, Essex Pension Fund and the Council's maintained schools. It does not cover private funds whose position is explained in Section 14 of this guidance.

3. VAT Rates

3.1 Business

This applies where the Council provides goods or services that are, or could be, in competition with the private sector.

Business activities may be:

Standard rated - at 20%: All transactions are taxed at 20% unless the law specifies that they should fall into one of the other categories.

Lower rated - at 5%: including domestic fuel and some types of energy saving works.

Zero-rated - These are supplies that are chargeable with VAT, but Parliament has decided that the tax to be charged is zero. Examples include books, children's clothing, most cold foods, and public transport. Any input VAT incurred on purchases relating to zero rated supplies can be reclaimed from HMRC by the Council.

Exempt - VAT is not chargeable on exempt supplies. Examples include many rentals / lettings, insurance, adult education fees. In theory VAT is not reclaimable on purchases relating to exempt supplies; however, the Council has special concessions which enable it to do so.

3.2 Non-business (No VAT charged)

This generally applies to goods and services provided by local authorities where:

- no charge or other form of consideration is made; or
- where a charge is made, this would not lead to significant distortion of competition with other bodies.

Examples that may be treated as non-business include statutory licences, certain testing fees and certain welfare services.

3.3 Distinction between business and non-business activities

HMRC have drawn up guidelines to try and distinguish between business and non-business activities.

A local authority can treat activities as non-business, when a charge is made, provided:

- It is acting as a public authority carrying out activities under a special legal regime, rather than under the same legal conditions as those that apply to private traders

AND

- It would not lead to significant distortion of competition with other bodies. Significant distortion of competition is regarded as being when it places existing private traders at a commercial disadvantage or deters would-be private traders from starting up businesses supplying similar goods or services in competition with the local authority.

If the activities that are being charged for don't meet these conditions, then they must be treated as business activities and the appropriate business VAT rates (as above) used.

A detailed list of the different VAT rates for the most common items of income and expenditure for each directorate is shown in Appendix B. It is likely, however, that some liabilities in certain areas will change in the future due to further activities being deemed to be business rather than non-business activities, considering HMRC guidelines. The appendix will be updated to reflect any future changes.

4. The Calculation of VAT

To calculate the VAT on the price of goods or services which are standard rated for VAT and do not yet include VAT, multiply the price by 0.20 (20%):

Price without VAT		£ 500.00
VAT (£500 x 0.20)	+	£ <u>100.00</u>
Total price		£ 600.00

To calculate VAT on the price of goods and services which are standard rated for VAT at 20% and where the price already includes VAT, divide the price by 6:

Price including VAT		£ 200.00
VAT (£200 /6) =	-	£ <u>33.33</u>
Price excluding VAT		£ 166.67

5. VAT Indicators used by Essex County Council

5.1 Introduction

VAT indicators are used to assist in accounting for the different types of VAT paid and received by the County Council and to identify the different VAT rates set out above.

The indicators used by Essex County Council (for income and expenditure) are:

1 (one)	Standard rate
2 (two)	Reduced rate
R	Reversed charge (for foreign transactions, see section 11.6)
Z	Zero rate
N	Non-business*
X	Exempt income

* VAT indicator N is also used for transactions not subject to VAT, e.g. purchases from traders not registered for VAT, transactions between Essex County Council departments (see section 12), as well as for purchases that are exempt from VAT.

VAT indicators must be quoted on invoice approval slips, petty cash claims and bank paying in slips.

5.2 Income

1) Invoices (Oracle Fusion System) - On line entry: The net amount is entered together with the General Ledger code. If the default tax code (VAT Indicator) and tax value displayed at the top of the screen are not correct in respect of the invoice that is being created, it is imperative that the tax code and type are amended on the 'Tax details' line, and a check is made that the tax value has been amended correctly once the screen has been validated. VAT is then automatically calculated, and added by the system.

Full guidance for creating sales invoices can be found on the My Oracle Guidance Hub.

Invoices may also be raised by completing an invoice request form entering the general ledger code, net amount and appropriate VAT indicator.

2) Paying in slips- the gross amount of income including VAT should be entered onto the paying in slip, together with the VAT indicator. The accounting system then automatically calculates the VAT element.

5.3 Expenditure - Batched invoices

For invoices which are still batched, if the order has not been raised on Marketplace, the net amount, VAT indicator and VAT shown on the invoice should be coded onto the approval slip.

For payments processed via the Electronic Payments Request Tool (EPRT), the correct VAT indicator must be selected from the relevant drop-down box before the request is sent to the budget holder for approval. If you are unsure on the correct VAT indicator to use, please contact financial.accounting@essex.gov.uk who will be able to advise you on this.

Further guidance on how to use the EPRT can be found on the Essex County Council Intranet page.

5.4 Local accounting systems

Schools using SIMS, FMS or other local accounting systems may well have different VAT indicators. These are only to be used in the local system.

Bank paying in slips to Essex County Council must use the codes shown above.

6. Responsibilities for accounting for VAT

6.1 Introduction

Finance are responsible for recovering VAT paid on all relevant goods and services purchased by the County Council. By applying the correct VAT indicators on approval slips for transactions and these being input to the County Council's accounting system, VAT is charged against an account managed by Finance, who then recover the VAT shown in this account from HMRC.

Special arrangements for recovery of VAT apply to local authorities, like Essex County Council. The County Council can reclaim all VAT it has paid on most of the goods and services it has purchased. Exceptions include motor cars, if not purely for business use, and certain purchases made in other EU countries.

If budget holders and their staff correctly code VAT on invoice approval slips the VAT will not be charged against their budgets.

The County Council also pays over VAT to HMRC that the Council has charged on goods and services that it has provided to customers.

6.2 Purchase and income documentation

Budget holders are responsible for ensuring that the correct VAT indicator is applied to all purchases and income. In particular, budget holders must ensure that the correct VAT indicators are shown on:

- Invoice approval slips;
- Mileage and allowance claims;
- Petty cash claims;
- Bank paying in slips;
- Invoices raised through the central system;
- Transactions within local systems which are designed to account for VAT (e.g. SIMS LRM).

All records relating to VAT, and the making of all VAT returns to HMRC, are the responsibility of Finance, except where special arrangements have been made.

6.3 Special arrangements

Special arrangements are in operation in relation to ECC maintained schools. Separate VAT guidance has been issued to ECC maintained schools containing instructions on how to account for VAT (See Appendix A).

7. Changes in the VAT Rate

Although changes in the rate of VAT do not occur very often, they can be introduced at very short notice. The VAT indicator(s) would be amended or changed in order to take account of the new rate.

Generally, all income should be coded with the new rate from the date of the change, even where charges have not been adjusted to take account of the change. Further details will be issued by Finance when a change is announced.

8. Errors and Penalties

8.1 Introduction

HMRC periodically inspect the Council's accounts. If they identify mistakes, they will ask the County Council to pay any loss to HMRC, together with interest on the loss and, in some cases, penalties. Any such costs will normally be charged to the relevant budget holder.

Penalties may be up to 100% of the tax underdeclared, if it is determined that the mistake was careless or deliberate.

If in doubt then please contact Financial.Accounting@essex.gov.uk for further advice.

8.2 Error notification procedure

Where errors involving VAT are found prior to discovery by HMRC, they can usually be accounted for on the Council's next VAT return, as a voluntary disclosure, as long as the total amount of VAT involved is less than £50,000. For errors over this value of VAT, HMRC have to be informed.

In order to facilitate this, Finance should be informed of any errors which are discovered relating to past VAT returns. Please provide full details of the error including: income / expenditure codes (where applicable), the net amount, the VAT involved and the dates when the errors occurred, so that any amount can be included on the Council's next VAT return, or notified to HMRC.

By following this procedure the Council will reduce interest charges, and avoid potential penalties.

9. Maintenance of Records

Business records must normally be retained securely and in good order for 6 complete financial years. These include:

- orders and delivery notes;
- relevant business correspondence;
- purchase invoices from suppliers;
- credit notes;
- cash records and till rolls;
- invoices raised by the council;
- bank statements and paying in slips;
- annual accounts.

Finance will normally retain supplier invoices and bank paying in slips and will maintain the bank accounts and annual accounts. Budget holders must ensure that the other records are kept.

ECC maintained schools must retain all records.

10. INCOME: Goods and Services provided by the County Council

10.1 Introduction

Where the County Council provides goods and services to a VAT registered business it is required to provide a tax invoice to the customer. This must include certain information, as detailed below. Staff can use the County Council's income system to send out invoices and collect income from customers and account for VAT. All invoices raised by this system will meet HMRC's requirements. Staff can raise invoices directly on-line; please consult the Intranet for further details. Essex Finance should be contacted for debt raising instructions and to obtain local access to the system.

10.2 Tax invoices for amounts over £250 (including VAT)

A tax invoice where the total price including VAT is over £250 must include the following details;

- An identifying number e.g. an invoice number;
- The date of issue;
- The date of supply or tax point if different (see glossary);
- Name, address and VAT registration number of the supplier;
- Name and address of the customer;
- Description sufficient to identify the goods or services;
- The unit price of the goods or services, (in the case of services this may be the hourly rate or a price for standard services). If the supply cannot be broken down into countable elements then the total exclusive price is the unit price
- Quantity of goods or services, rate of tax and the amount payable;
- Total amount payable excluding VAT;
- Rate of cash discount (if offered);
- The total amount of VAT charged.

10.3 Tax invoices for amounts under £250 (including VAT)

Where the total price including VAT is less than £250, a simplified invoice can be used. It must include;

- Date of issue;
- Name, address and VAT registration number of the supplier;
- Tax point;
- Description of the goods or services;
- Amount payable including tax;
- For each applicable VAT rate, the total amount payable, including VAT and the VAT rate.

10.4 Cash, credit card and cheque income

It is recommended that official receipts be issued for any cash or cheques, in excess of £5.00, received by hand, as soon as possible, preferably immediately after the income has been received. A record should be kept of any income received for lesser amounts.

10.5 Exempt income

All income that is exempt from VAT, rather than non-business, should be coded X and not N. All income that is exempt is identified as such in the attached appendices.

However, note that expenditure that is exempt from VAT (for example, insurance premiums) should be coded as N.

10.6 Accounting for VAT on Refunds

All requests from customers for refunds should be in writing with the original receipt attached if possible. Where the refund is made from petty cash the letter and receipt should be sent in as a petty cash voucher with the refunded VAT properly coded.

It is possible to make a refund through the County Council income system by contacting the ECC Finance team.

10.7 Exports to the European Union

On the 31st January 2020, the United Kingdom withdrew from the European Union. This has affected how VAT should be accounted for when exporting goods and services to EU countries.

If you are providing services to a country within the EU, please contact Financial.Accounting@essex.gov.uk and we will assist you on the correct VAT treatment to use on a case by case basis.

10.8 Exports outside the EU

The export of normally taxable goods outside the UK can be zero rated if;

- the goods are not to be supplied to a UK registered trader;
- the export takes place promptly;
- Evidence of export such as a shipping certificate, airway bill, post office receipt, or bill of lading is obtained and retained.

10.9 When to account for VAT on income

VAT returns have to be submitted every month by the Council to HMRC. It is important that transactions are included in the correct return. VAT return periods coincide with Oracle closing dates (i.e. the last working day of each month).

The actual date (tax point), when VAT should be accounted for on goods and services is the date of the invoice (if one is raised), or when the income is received – whichever is the sooner. This must normally take place in the same (or occasionally next) VAT return as when the actual service took place, or the goods were removed.

Cash and cheque income should therefore be banked as soon as possible. Invoices should be raised within 14 days (or in exceptional circumstances two months), of the service being supplied, or the goods being removed.

HMRC charge interest if VAT on income is accounted for in a VAT return outside the set limits.

VAT is due on advance payments such as deposits for standard rated goods or services, as soon as they are paid.

10.10 Bad debts

If a tax invoice is raised and payment is not subsequently received, relief can be claimed from the VAT on the bad debt, provided the following conditions are met:

- VAT has already been accounted for on the supplies and paid to HMRC;
- The debt has remained unpaid for at least six months;
- The debt has been written off and transferred to a bad debt account with full details of the invoice and the debtor; and
- A copy of the relevant tax invoice is retained as evidence.

Please contact Financial.Accounting@essex.gov.uk if you have debt that you believe needs to be written off.

11. EXPENDITURE: Goods and Services received by the County Council

11.1 Introduction

VAT registered traders who supply the County Council with goods and services are required to provide a tax invoice to the County Council whenever standard rated goods or services are supplied. The invoice must meet the requirements set out in Section 10. Statements or photocopies of tax invoices are not normally acceptable. If necessary, ask the supplier for a duplicate.

Traders who have not registered for VAT cannot add VAT to the price of the goods and services they provide. Where goods or services are supplied by traders who are not registered for VAT, no VAT will have been charged to the County Council; therefore, no VAT can be recovered.

11.2 Purchase orders raised on My Oracle

When purchase orders are raised on My Oracle, always ensure to enter the amount excluding VAT. When the goods or services are received, the purchase order must be receipted on My Oracle, verifying that the goods and services received match the amount raised on the Purchase Order. If the invoice shown on the system is OK to pay, the invoice received from the supplier will be automatically matched to the order, and the VAT shown on the invoice will be claimed automatically.

Any queries regarding the purchase of goods and services should be referred to the Service Centre helpdesk (Tel 03330 135888).

11.2.1 Batched invoices

For orders not raised on My Oracle, when a correct tax invoice is received it will normally be certified, batched, and sent for payment. Provided correct VAT indicators are written on the invoice approval slip by budget holders, the VAT will be coded correctly, and only the net amount charged to the budget holder.

Care should be taken if items on a tax invoice are being allocated to different expenditure codes. In certain instances the tax invoice will show some items with VAT, and others where no VAT has been charged (for example some items are zero rated or exempt). Care should be taken to correctly identify these items, and allocate the correct VAT indicator.

The total VAT shown on the coding slip should always equal the total VAT shown on the invoice.

Purchases of over £250 must be in the name of the Council and / or the establishment. Where it is in the name of an individual (e.g. a member of staff) VAT cannot be recovered.

(This is important to bear in mind when considering using an individual's "club" card or credit card to make purchases on behalf of the Council. In this case the invoice is likely to be made out to the cardholder, preventing the Council from recovering VAT.)

11.3 Incorrect tax invoice

Where a supplier fails to provide a correct tax invoice it should be returned to them for re-issue. Except when taking agreed prompt payment discounts, the price on the invoice before VAT is charged should never be altered. The amount of VAT must never be changed.

11.4 Proforma invoices and Authenticated Receipts

Sometimes the supplier will issue a 'pro-forma' invoice. This will either exclude VAT or, more commonly, state 'this is not a tax invoice'. VAT cannot be recovered on these documents and the whole invoice amount should be coded N. When, perhaps at the end of the contract, a tax invoice is subsequently received, this should be sent to the Finance Hub with a request for a VAT adjustment.

Similarly, payments made using an Exceptional Payment Form, where no tax invoice is available, should be coded VAT indicator N. If a tax invoice is subsequently received this should be sent to the Finance Hub with a request for a VAT adjustment.

11.5 Petty Cash (Imprest) accounts

VAT will be charged on many types of expenditure paid for out of petty cash accounts. The County Council can recover the VAT element, provided that the evidence of VAT on the purchase is acceptable to HMRC. Except for telephone call boxes and off street parking, VAT can only be recovered if there is adequate documentation.

For cash purchases of less than £250, a receipt will be acceptable, providing that it includes all the details required on a simplified tax invoice in section 10 above. Some tills use a symbol such as an asterisk to identify standard rated goods on till receipts. Such receipts are acceptable as tax invoices if they contain the address and VAT registration number of the supplier and are for less than £250. *If the till receipt does not contain all these details, purchasers can request a proper tax invoice in appropriate cases. If a receipt is not available, VAT cannot be reclaimed and should not be included as VAT on the invoice batch or petty cash return.*

11.6 Buying Goods From Abroad - Imports from inside the EU (reverse charge)

VAT is due in the country where the purchaser of the goods is located. In the case of the County Council, this will normally be the UK.

If purchasing goods from a VAT registered company in the EU you should tell them that you are VAT registered and supply them ECC's VAT registration number (GB104 2528 13), they will then issue the invoice with a zero VAT rate. The invoice should show the goods as zero rated for VAT. ECC's VAT number (GB104 2528 13) must be shown on the invoice from the supplier. VAT indicator **R** must be used and the VAT amount left blank on the invoice approval slip.

11.7 Imports from outside the EU

VAT is charged and payable on the goods at import into the UK. VAT is in addition to HMRC duty, and is calculated on the value of the imports including duty. A separate monthly invoice / certificate (Form C79) for reclaiming the VAT will be provided by HMRC. Provided Essex County Council's VAT number is quoted by the shipping agent when the goods are imported, the certificate will be sent directly to Finance, for inclusion in the Council's VAT return.

Goods imported by post are covered by similar rules to other imports, duty and VAT being payable at import.

Please contact Financial.Accounting@essex.gov.uk when purchasing goods from overseas (both within and outside the EU)

12. Transactions between Essex County Council Departments

Transactions between different sections of the County Council are not subject to VAT. This is because in the eyes of HMRC, Essex County Council is a single body.

The Pension Fund, community, foundation and voluntary schools maintained by the LEA are all included in the County Council's VAT Registration and transactions between the County Council and these bodies are not subject to VAT. Any transactions between different sections of the County Council should therefore use the non- business VAT indicator (VAT indicator N).

Academy Schools, Essex Police, Essex Fire Authority, Essex Probation Service, Magistrates Courts, Essex Cares Ltd and Essex Housing Development LLP are not covered by the County Council's VAT Registration, and goods and services provided by the County Council to these bodies are subject to VAT. These bodies will also charge the County Council with VAT where appropriate.

13. Transactions between Local Authorities and other public sector bodies

13.1 Supply of goods

The supply of goods between local authorities is subject to the normal rules and the appropriate rate of VAT should be charged.

13.2 Supply of services

Supplies of **services** between local authorities which are not in competition with the private sector can be treated as non-business. However services must be treated as business and VAT charged at the appropriate rate if:

- It is in competition with similar supplies in the private sector, or
- it includes any supply of goods.

14. Private Funds

Staff who are involved in transactions which do not pass through the Council's accounts need to ensure that the funds are registered for VAT where necessary.

Private Funds expenditure and income cannot be treated as part of the Council's VAT registration. Private funds must register for VAT where the level of their taxable outputs (standard plus zero rated) exceeds, or is expected to exceed, a specified limit in the past 12 months (£90,000 from 1st April 2024). They cannot de-register unless the taxable turnover falls below a specified limit in the last 12 months (£88,000 from 1st April 2024).

Taxable turnover could include such items as: tuck shop sales, sales of uniforms and other clothing, sales of items donated to jumble sales, ticket sales to school plays, concerts etc., commission on school photograph sales, sales of equipment to staff and pupils through a school shop rather than in class, sales of mobility aids and other medical items to Social Service's clients.

15. Donated Funds

The County Council can reclaim VAT on purchases made from funds given directly to them for specific purposes provided that the Council:

- Makes the purchase itself, i.e. places the order, receives the goods or services, receives a tax invoice addressed to the Council, and makes the payment;
- Retains ownership of the purchase and uses it, or makes it available for its own non-business purposes; and
- Keeps sufficient records to identify the purchase and the purpose for which it is to be put.

The above concession does not apply where the donation or funding is paid initially to another voluntary group or body and then passed onto the Council, and the goods are actually used by the voluntary group.

If the donor requires something in return for the donation, then VAT can be claimed on the purchase under normal VAT rules. However a tax invoice should be issued to the 'donor', with VAT where appropriate, showing what service is required in return for the payment.

16. Externally Funded Capital Projects

High value capital projects and externally funded projects (including lottery funded projects) can have complex VAT implications. There is a danger that if too many projects are undertaken at any one time, VAT will not be recoverable on all the related expenditure. The Council would also have to repay Customs all the VAT incurred on other exempt income.

Capital Expenditure for Voluntary Aided (VA) Schools is the responsibility of the school governors and includes expenditure on school buildings, playgrounds, fixed furniture and fittings that form part of the infrastructure. Voluntary Aided schools cannot recover VAT on any capital expenditure that is the responsibility of the school governors.

Loose ICT equipment, software, freestanding desks and freestanding educational equipment, however, are now regarded as the Local Authority's responsibility rather than the governors' and VAT is now recoverable on such items, if they are funded from the school's delegated budget or donated funds.

For further guidance on VAT for VA Schools, please refer to Appendix E.

You should contact Financial.Accounting@essex.gov.uk at the earliest opportunity in order to obtain practical advice on any VAT related queries regarding Capital expenditure.

17. Advice and Contact Points

17.1 County Funds

Advice should be sought from Financial.Accounting@essex.gov.uk.

It is strongly recommended that budget holders channel queries relating to County funds as outlined above rather than contacting HMRC direct.

17.2 Private Funds

Queries relating to private funds should normally be directed to HMRC at their National Advice Centre. Their telephone number is: 0300 200 3700.