

Essex County Council VAT Manual: Appendix E

VAT Capital Expenditure Rules for Voluntary Aided Schools

This guidance note is an update for VA schools regarding the VAT implications for capital expenditure which is the responsibility of the school governors.

Voluntary Aided schools cannot recover VAT on any capital expenditure that is the responsibility of the school governor's. This includes work funded from the Department for Education's 90% direct grant and the 10% governor's contribution. VAT also cannot be recovered on any such capital expenditure that is funded either wholly or partly from the school's delegated budget or from any other donated funds.

Capital expenditure that is the responsibility of the school governors includes expenditure on school buildings, playgrounds, fixed furniture and fittings that form part of the infrastructure.

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.

Expenditure:

VAT cannot be recovered on capital expenditure that is the responsibility of the governors in VA schools.

(This includes work funded from the Department for Education 90% direct grant and the 10% contribution, if paid for by the governors, the delegated budget or from other donated funds). Care should be taken if all the capital expenditure is being paid for via the school's financial accounting system. In such cases the payment *must* use VAT indicator 'N' (or your equivalent **non** recoverable VAT expenditure code).

The only circumstances where VAT may be recovered on capital work that is the responsibility of the governors, is if the Local Authority spends its own funds, (excluding the delegated budget), by placing an order directly with a supplier, i.e. the Local Authority must procure the goods or services itself and receive the supply.

This is likely to occur only on very rare occasions.

Note: There is a threshold of £10,000 (or £2,000 if the purchase is made from Devolved Formula Capital funding) under which H M Revenue & Customs now regard expenditure not to be capital work. VAT can therefore be recovered on such expenditure if it is under £10,000 and paid for from the delegated budget.

(The flowchart below shows in more detail when VAT is recoverable and when it is not recoverable for works and services carried out at VA schools.)

Income:

Note: VAT should not be accounted for on any income received as a grant from Department for Education for capital building works.

Any grant income from Department for Education for capital works should be coded with VAT indicator C (or your equivalent Non- Business Income VAT code), if paid into the school's delegated budget.

Building projects that may be zero-rated for VAT:

It should be noted that the construction of a **new** charitable building at a VA school can be zero-rated.

In order to qualify for zero-rating the works must meet one of the following criteria:

- i) a new 'relevant charitable building' is being constructed

or

- ii) an independent annexe for a relevant charitable purpose is built on to an existing building.

A relevant charitable building for a VA School means a building that will be used for a non-business purpose of the school (e.g. a new class room block). A sports hall or other building used for community use would **not** normally be eligible for zero rating.

An independent annexe must normally have its own main entrance which does not form the entrance to the existing building.

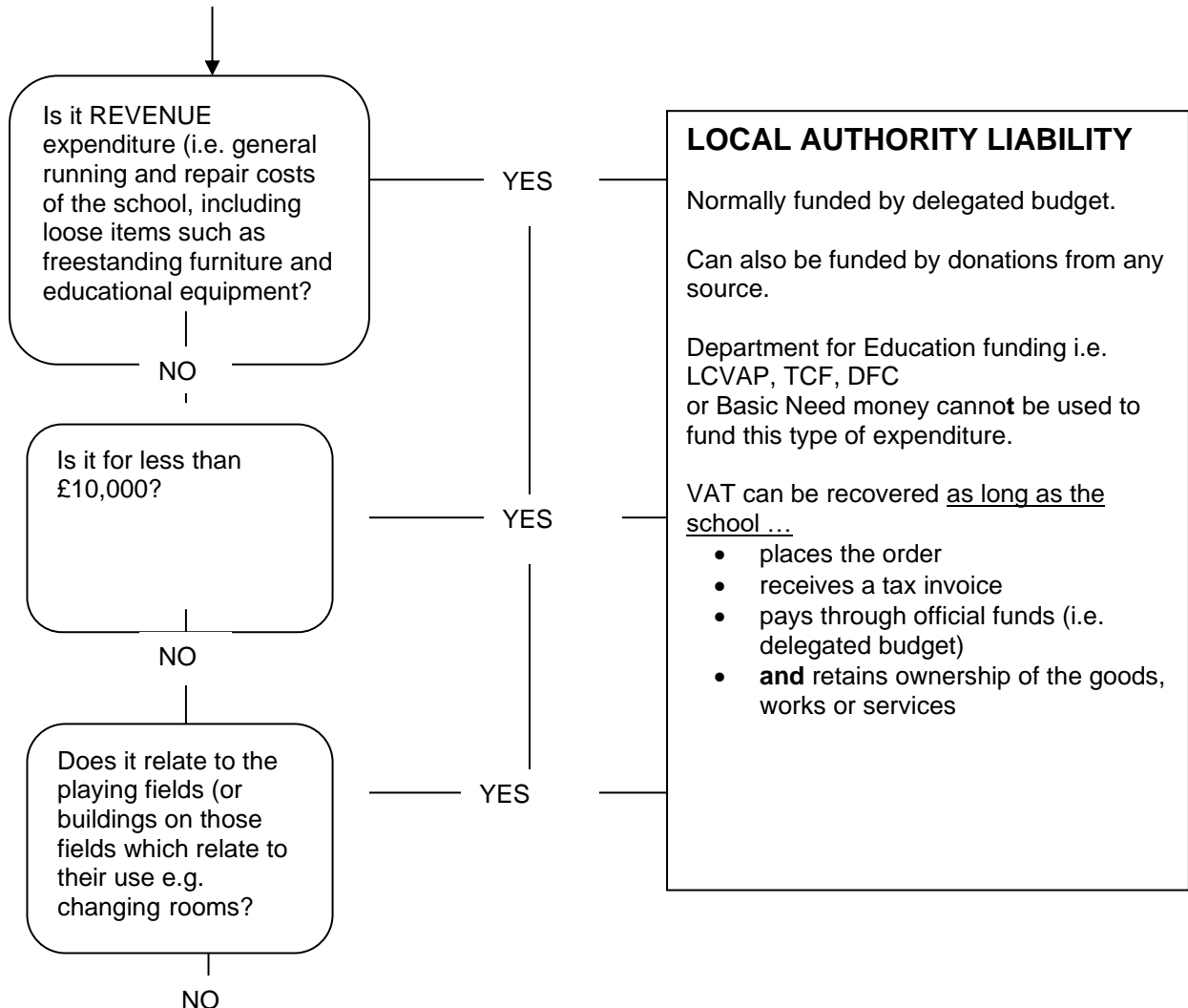
In order for zero rating for VAT to apply, a special certificate has to be issued by the school and presented to the main contractor who should not then charge VAT on their invoices. In this case, if the invoice is paid for through the school's financial accounting system it should be certified using VAT indicator Z (or your equivalent VAT code), as there will be no VAT charged.

For copies of the zero rated certificate and any queries please contact:

Robert Forbes: robert.forbes@essex.gov.uk 03330 137859

Please see the flowchart on the following page which shows under what circumstances VAT is and is not recoverable for works and services carried out at VA schools.

WORKS OR SERVICES AT VOLUNTARY AIDED SCHOOLS - VAT RECOVERY



LOCAL AUTHORITY LIABILITY

Normally funded by delegated budget.

Can also be funded by donations from any source.

Department for Education funding i.e. LCVAP, TCF, DFC or Basic Need money cannot be used to fund this type of expenditure.

VAT can be recovered as long as the school ...

- places the order
- receives a tax invoice
- pays through official funds (i.e. delegated budget)
- **and** retains ownership of the goods, works or services

GOVERNING BODY LIABILITY

Normally funded by 90% Department for Education grant (LCVAP, TCF, DFC or Basic Need) and 10% contribution from Governors.

VAT cannot be recovered on this type of expenditure.

However....

If the project is a new build or an independent annexe it may be possible for zero- rating if the building is to be used for a 'Relevant Charitable Purpose'.

In the unusual event that a project is fully funded from genuine Local Authority funds, (excluding the delegated budget), and the Local Authority itself contracts for the work, VAT may then be recoverable.

Contact the VAT Technical Officer for further advice. ([Tel:03330 137859](tel:03330137859))

Sources: HMRC VAT Notice 701/30 (Apr 2017),
 HMRC Guidance Note Feb 2013
 Department for Education 'Blue Book' (2010)