

Accountancy Services
Penallta House

Value **A**dded **T**ax

Guide for Schools

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INTRODUCTION

This VAT guide is for general guidance for schools only. It should serve for most subjects and indicate to the user where further advice should be sought on more complex VAT issues.

This guide only deals with how VAT should be dealt with for Local Authority Schools and should not be used to give guidance to any outside bodies. It should also be read in conjunction with the main VAT guide.

Any VAT queries should be addressed to Gwyneth Grahame (tel: 01443 863335 email: grahag@caerphilly.gov.uk) or Cathy Vart (tel: 01443 863440 email: vartc@caerphilly.gov.uk) in Accountancy Services.



BASICS

Under the VAT Act 1994, all Local Authorities have to be registered for VAT.

Any education or vocational training provided by local authorities for no charge, or which they provide acting as a public authority, is a **non-business** activity.

However all other educational or vocational training courses that are provided for any form of charge or payment are generally exempt business supplies.

OUTPUT TAX

This is the VAT due on the taxable supplies we make i.e. income collected. Output tax has to be paid over to HM Revenue & Customs (HMRC) via our monthly VAT returns. VAT is not chargeable on non-business activities.

INPUT TAX

This is the VAT we are charged on our business purchases and expenses and can be reclaimed from HMRC. Local Authorities are also allowed to reclaim the VAT incurred on goods and services purchased in respect of their own **non-business** activities under S33 of the VAT Act 1994. (Hence the reason why they are called Section 33 Bodies). Although VAT is not chargeable on exempt supplies, it is **important to distinguish between non-business and exempt** supplies as in making exempt supplies, we are not able to recover all the VAT on the associated expenditure. However, where such expenditure is considered negligible (below 5% of the total input tax), the authority may ignore it. However, if our 5% limit is breached, we have to account to HMRC for the entire amount of the input tax attributable to exempt supplies, which could cost the Authority approximately £1.5 million per year. Consequently, it is imperative that any new and potentially exempt activity is promptly reported to Accountancy. Examples of exempt activities may include the provision of non-statutory education, or sporting or recreational courses with instruction. The list of exempt supplies is quite extensive so any queries should be referred to Gwyneth Grahame.

RATES OF VAT

There are currently three rates of VAT, namely:

1. Standard Rated 20% - includes most supplies of goods where they do not fall into any of the other categories;
2. Reduced Rate 5% - includes certain supplies of fuel and power for domestic use and for schools;
3. Zero Rated 0% - includes sale of domestic accommodation.

RETENTION OF DOCUMENTS

All documents relating to VAT must be kept for six years. The documents should be available for inspection by Accountancy and Internal Audit and by officers of HMRC during the visits they make on a regular basis.

Any queries relating to whether VAT should be charged on supplies should be addressed to Gwyneth Grahame 01443 863335, grahag@caerphilly.gov.uk



PRIVATE FUNDS



LEA (Local Education Authority) maintained schools are funded largely through the local authority, but they can also generate income independently. This 'private fund' income should be kept in a separate bank account, as it is not part of the local authority for VAT purposes, but is a separate entity. The private fund may be held in the name of the governing body, the head teacher (acting as agent of the governing body) or some other entity such as the PTA. Subject to the normal threshold (£85,000 p.a. from 1.04.21 and fixed until 31 March 2024) the private fund must be registered for VAT separately **if it makes taxable supplies** that generate income which does not belong to the LEA and which it uses purely to supplement its own funds. If any schools are approaching this threshold of £85,000, they should contact Gwyneth Grahame in Accountancy for further advice.

INPUT TAX ON PURCHASES USING PRIVATE FUNDS

If the private fund is separately registered for VAT, it can recover input tax subject to the normal rules and the **local authority cannot recover the VAT incurred on any private fund purchases**. If the private fund does not have VAT registration, then it will not be able to reclaim any VAT on the purchases it makes.

However, where a private fund has obtained income other than via the local authority, it can opt to donate the money (the net amount) to the local authority for them to buy goods and services on the private fund's behalf. **The local authority can recover the VAT incurred, provided it:**

- Places the order
- Makes the purchase itself
- Receives the supply and a VAT invoice addressed to it
- Makes the payment
- Uses the goods/services for the educational purposes of the school, and
- Retains ownership of the goods, together with adequate records.

Any income from assets that are purchased in the above way (i.e. owned by the LEA) must be put back into the schools budget e.g. income from the hire of a minibus or letting of premises. However, the LEA can if it wishes, donate this income to the private fund. If it does so, the income is treated as budget share funds (i.e. it will increase the school's budget) and when the school uses it to buy goods and services and the LEA is entitled to recover the input tax.

CLOSELY RELATED SUPPLIES

Sales of 'closely related' supplies made by a local authority to its own pupils can be classed as a non-business activity and is therefore outside the scope of VAT, provided the following conditions are met:

- a) The charge for the goods does not more than cover the fully overhead-inclusive cost of making the supply (i.e. no profit is made on the supply)
- b) The supply is made in the classroom via the teacher or head-teacher and is for use in the normal curriculum of the school. For example, if the school supplies musical instruments that can be taken home by the pupils, then the pupils must bring the instruments back to use to use them **at least weekly**.

However, where the local authority provides education for a charge (e.g. adult education classes) and a supply is made in relation to this, then this supply would be classed as exempt, as it is closely related to an exempt business activity.

SCHOOL TRIPS

In practice, regardless of the nature of the activity, any school trips that a school organises for the benefit of its pupils can be treated as part of its non-business provision of education.

SUPPLIES MADE OTHER THAN TO THE SCHOOLS OWN PUPILS

By concession, LEA maintained schools can treat as non-business any closely related goods and services supplied direct to pupils of other schools.

SCHOOL UNIFORM SALES

There is no specific relief for school uniforms and the VAT treatment is covered by clothing in general, again these rules are quite exhaustive. The basic rule is that clothing that is zero-rated is designed for children's measurements up to the eve of their 14th birthday. If uniforms are supplied under a specific agreement with a school catering exclusively for pupils under 14 years of age, it is possible to apply zero-rating provided the garments are:

- ◆ Unique to that school by design such as a prominent badge or piping in school colours;
- ◆ Held out for sale as being for that school only.

Where a school caters for pupils of 14 and over, the normal clothing rules apply.

CATERING

The catering provided by an LEA school to its own pupils usually qualifies as **non-business**. Any catering it provides to staff and visitors for a charge (other than to pupils and students of other educational establishments) is **taxable**, even when made from an outlet used mainly by pupils. A school should break down supplies between non-business and taxable supplies at the point of sale, or where this is not possible, propose a fair and reasonable method of apportionment, in which case guidance should be sought from Gwyneth Grahame in Accountancy. Only meals provided **free of charge** qualify as non-business.

VENDING MACHINES/TUCK SHOPS

These can be classed as supplies in the course of catering, and therefore non-business, under the following circumstances:

- For vending machines, there has to be an agreement between the supplier and the school to provide a certain range of service.
- In all other cases the food or drink consumed on the premises from which it is supplied is catering. Food eaten off the premises is not catering (and is therefore standard-rated), except for any hot take away food.

Where an LEA maintained school makes supplies in accordance with the above to its pupils, the supplies can be classed as **non-business**.



GRANTS

Where a local authority provides a grant to a student attending further education establishments, regardless of whether it is provided to the establishment or to the student, it does not represent payment for any supplies made to the local authority and there is no entitlement for the local authority to recover any input tax. This remains the case even if the local authority is billed directly for any of the supplies made.

ADULT EDUCATION

Where local authorities provide adult education where they are under no statutory obligation to do so, the provision of courses constitutes a business activity carried out in direct competition with other providers. Any charge for such is an **exempt** supply.

COMMUNITY EDUCATION

Local authorities have to ensure that certain forms of community education are available in their area, although they do not have to provide this themselves. If they do provide this type of education, again as it is in direct competition with other providers, then this is classed as a business activity and again is an **exempt** supply.

CAREERS SERVICES

The Secretary of State retains the right to direct local authorities to provide careers services if no suitable private sector provider exists. Where such a direction is in force, this constitutes a non-business activity for VAT purposes. If there is a private sector provider, yet the authority still provides careers services, then this constitutes a business activity and is liable to VAT at the standard rate.

MISCELLANEOUS

SCHOOL PHOTOGRAPHS



- If the photographer supplies the photos directly to the pupils, he must account for the VAT on the final selling price. The LEA may act as agent when contracting with the photographer and in this case, the LEA must account for VAT on any commission or discount the school receives in respect of the supply.
- If the photographer supplies the photos to the LEA or the school, if the LEA or school is registered for VAT, then they must account for the VAT on the full selling price to the pupils and the photographer must account for VAT on the price actually charged. The LEA or the school can also recover any input tax it incurs in purchasing the photos.

DENATURED ALCOHOL (DEB) AND INDUSTRIAL METHYLATED SPIRITS (IMS) FOR USE IN LABS

Users of either of the above *must* be authorised by HMRC. CCBC, as the holder of the VAT certificate must obtain approval for each school wishing to use any of the above. Schools *must* observe the following conditions:

- Keep all stocks under lock and key
- Keep all stocks under the control of a responsible person appointed by the school
- Keep a stock control of the substances
- Use IMS and DEB only as set out in HMRC's letter of authority and comply with the conditions set out in their notice 474 – an electronic of which can be obtained from Gwyneth Grahame.

**VAT
STATUS
OF
SCHOOL
ACTIVITIES**

Education and Training

<u>Activity</u>	<u>Status</u>
a) The supply of primary and secondary education including the recovery of costs from other Local Authorities for education of their pupils.	Non-business
b) Field studies and organised school visits supplied to our own pupils as part of the curriculum.	Non-business
c) Provision of day nurseries, playgroups, etc. for under 5's. This only applies where the premises are registered under the Children Act 1989 or are Exempt from registration. Supplies from premises, which do not qualify would be Standard rated recreational activity. The simple use of the word 'crèche' is not enough to justify exemption.	Exempt if a charge is made. Non-business if free of charge.
d) Adult education for which any charge is made.	Exempt
e) Adult education provided free.	Non-business
f) Training or re-training not provided under a statutory obligation.	Exempt
g) Government funded training schemes.	Exempt
h) Employer's contributions under work placement schemes.	Standard rate
i) Careers services provided under the Employment Rights Act 1993	Non-business where provided under direction from the Secretary of State, otherwise standard rate.

Supplies Relating to Education

<u>Activity</u>	<u>Status</u>
a) Sale of goods closely related to the provision of education forming part of the curriculum, other than clothing or sports equipment.	Non-business where sold to pupils in class at below cost and for regular classroom use. Otherwise taxable at standard rate.
b) Sale of clothing or sports equipment.	Taxable at the standard rate. Some young children's clothing and footwear is zero rated if below sizes specified by HMRC.
c) Meals supplied to pupils in schools catering outlets.	Non-business
d) Sales of food and drink to own pupils from vending machines, BUT Sales to staff or adults from vending machines are standard rated. Accountancy will advise of the appropriate apportionment.	Non-business (unless it is consumed off-site).
e) Sales of food and drink supplied otherwise than in school catering outlets.	Taxable at the appropriate rate.
f) Sale of meals, etc. to staff and visitors.	Standard rate.
g) Supplies of goods and services, e.g. catering, to grant maintained schools.	Standard rate.
h) Sale of class-work to pupils as part of statutory education.	Non-business.

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|---|---|
| i) All other sale of class-work. | Taxable at the appropriate rate. (Standard - except food and children's clothing, which is zero rated). |
| j) Boarding and transportation provided in connection with non-business or exempt education. | Non-business or Exempt (following the liability of the education). |
| k) Boarding or accommodation provided without related education. | Standard rate. |
| l) The provision of facilities to youth members in return for their subscriptions or for additional payment where the facilities are directly related to the clubs ordinary activities. | Exempt. |
| m) Other supplies by youth clubs. | Standard rate. |

Administration of Education

- | <u>Activity</u> | <u>Status</u> |
|---|--|
| a) Examination and enrolment fees. | Follows liability of the education provided. |
| b) Preparation of statements for special needs pupils. | Non-business. |
| c) Provision of information. Assessment and administration of complaints relating to the National Curriculum. | Non-business. |
| d) School inspections. | Exempt. |