

**DERBYSHIRE COUNTY COUNCIL**

**VAT Guide**

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**VAT Guidance to all employees**

**Accounts Payable**



## **Derbyshire County Council Value Added Tax Guide**

Dear Colleague

Welcome to the latest version of the Derbyshire County Council Value Added Tax ('VAT') Guide we hope you find it helpful. For many people VAT is something of a mystery, they know they pay it when shopping but how it actually works for a local authority is another matter. We have therefore included a brief summary of how the VAT system works at Annex 2 for those who are interested.

The Guide is in two parts section 1 looks at purchases through the accounts payable system and a separate section 2 that looks at sales or income received through the accounts receivable system. There is also a separate supplement for schools.

All employees of the Council are subject to the Council's financial regulations and correct treatment of VAT is essential to good financial management. The VAT system is managed by HM Revenue & Customs ('HMRC') and we must demonstrate that we have effective systems in place to control and account for VAT correctly. If internal guidance is not followed or ignored then we can be penalised by up to 100% of any error. All of us working for the Council who are involved in financial transactions have a responsibility to make sure that together we get it right.

Written guidance alone can never provide the answer for every query, everyone needs that human touch of speaking to someone so contact details are there for you to use, no matter how trivial you might think your query is - if in doubt please ask.

Finally at Annex 4 we have included some interesting and amusing examples of case law reflecting the occasional crazy world of VAT.

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May 2012

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Disclaimer

The Derbyshire County Council Value Added Tax ('VAT') Guide ('The Guide') is the property of Derbyshire County Council ('the council'). The Guide is intended for internal use only to provide help and support to staff employed by the council when dealing with VAT related issues. It is not intended as a definitive or complete statement of the law, nor is any part of it intended to constitute legal advice for any specific situation. Nor is it a substitute for any guidance issued by Her Majesty's Revenue & Customs. The council accepts no responsibility for any actions taken as a result of the information contained in this Guide.

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## Accounts Payable

- 1 If you have access to SAP Finance guidance on DNET then please refer to it for help in operating SAP. VAT is built into the SAP system so this guidance is not a technical guide to the SAP system but rather outlines the basic principles of VAT within SAP. If you are working on a system outside of SAP please ensure that you understand how it interfaces with SAP and how VAT should be treated.
- 2 The VAT Regulations allow for a special refund scheme for local authorities through a monthly VAT return. This allows for all VAT incurred on non-business activities to be recovered so that it does not fall as a cost to the Council. The SAP system automatically posts VAT to the VAT account GL Account 704200 – you cannot post directly to this account. In certain cases VAT can be posted to the manual VAT account 704210, such as when a journal is processed. Not everything the Council does is a non-business activity, on occasions the Council supplies goods and services that are subject to VAT, related expenditure for these items is still recoverable in the same way.
- 3 Any supply of goods and/or services supplied to the Council must be in respect of the activities of the Council. **We cannot reclaim VAT for third-parties such as charities so that they avoid paying VAT.** The following procedure must be followed in order to reclaim VAT.

The Council must,

- place the Order
- receive a valid tax invoice addressed to the Council
- receive the goods/or services for its own non-business (or business if relevant) activities
- pay for the goods/services from its own funds or funds it receives, e.g. external grants

## Orderpoint

- 4 The Orderpoint system requires knowledge of VAT status before goods/services are ordered so it is essential that you check with your vendor and understand the VAT liability.

### Box 1

### HMRC's Penalty System

The VAT system is administered by HM Revenue & Customs ('HMRC'). A penalty system operates and errors deemed 'careless' in accounting for VAT can trigger a penalty of at least 20% of the VAT error and

potentially up to 100%. Even where the Council discovers errors it must in certain instances disclose such errors. It is therefore imperative that as far as possible all entries to the VAT account are accurate and reflect the proper VAT position. If you intend to make an adjustment by way of a journal entry and this affects the VAT account you must speak with the Council VAT Officer first.

We submit a VAT return monthly in order to obtain a refund of the VAT we have paid to vendors on receipt of a VAT invoice. Each time we submit such a claim we are making a legal statement as to its accuracy, which is why everyone posting to the financial system has a role to play in ensuring VAT is posted accurately.

- 5 When you purchase goods or services the vendor (supplier) is making a supply of those goods or services to the Council. The vendor has the legal responsibility for deciding whether VAT is due, or not on the supply. Most goods and services supplied to the Council will be subject to VAT at the standard-rate. The standard-rate of VAT is the default position for any charge to VAT and was set by Parliament originally in the 1972 Finance Act. In recent years there have been several changes – prior to these changes the standard-rate had not changed since 1991. Here are the recent changes,
- 1st December 2008 – 31st December 2009 = 15%
  - 1st January 2010 – 3rd January 2011 = 17.5%
  - From 4th January 2011 - 20%
- 6 Vendors are required by law to issue a VAT invoice to a VAT registered body – including the Council. VAT charged to the Council is therefore not a 'cost' because the Council through its monthly VAT return can reclaim from HMRC VAT correctly charged to it by vendors. Only a VAT registered person can charge VAT on a VAT invoice and a non-VAT registered person or body is committing an offence if it charges VAT.

**Box 2            VAT Registration Numbers**

**The standard format is numerical, 9 digits e.g. our VAT registration number is GB 127 2481 78. Recently HMRC issued a new set of numbers beginning with 100 but still 9 digits. (the SAP system is configured to identify and reject incorrect formatted VAT numbers). There is a formula to calculate whether a VAT number is correct but if in doubt please speak with the Council VAT Officer**

### **Box 3 Record Keeping**

HMRC require all records in respect of VAT to be kept for a minimum of **6 years**.

This includes what HMRC refers to as 'normal business' records. The following list is for commercial businesses but should reflect the documentation held by the Council. Our ledgers are now in SAP so much of this information is stored electronically but other items such as invoices issued and received are not all scanned into the SAP system and might well be kept at remote locations. Any request to store documents electronically must be discussed with the Council VAT Officer before any action is taken to cease using paper copies as HMRC prior approval might be required.

- annual accounts, including profit and loss accounts
- bank statements and paying-in slips
- cash books and other account books
- credit or debit notes you issue or receive
- documentation relating to dispatches/acquisitions of goods to/from EC Member States
- documents or certificates supporting special VAT treatment such as relief on supplies to visiting forces or zero-rating by certificate
- import and export documents
- orders and delivery notes
- purchase and sales books
- purchase invoices and copy sales invoices (see Sections 4 and 5)
- records of daily takings such as till rolls
- relevant business correspondence and
- VAT account (see Section 3).

### **VAT Invoices**

- 7 Vendor Invoice Management (the VIM system) is the process by which vendors are paid on receipt of an appropriate VAT invoice. Invoices received, scanned and entered on to the Accounts Payable ('AP') system should contain certain information to satisfy the VAT regulations imposed by HMRC. **Please refer to the 'Mini Guide for Invoice Coders'** If you process payment of invoices outside of the SAP system you must still keep to the record keeping requirements. The minimum information required on a VAT invoice is as follows and an example follows.
  - an identifying number;
  - the vendor's name and address and VAT registration number;

## Public

- the time of supply (tax point);
- date of issue (if different to the time of supply);
- the customer's name (or trading name) and address;
- the type of supply
- the invoice must also show the following detail
  - the quantity of goods or extent of the services;
  - the charge made, excluding VAT;
  - the rate of VAT;
  - the total charge made, excluding VAT;
  - the rate of any cash discount offered;
  - each rate of VAT charged and the amount of VAT charged at each rate and shown in sterling; and the total amount of VAT charged, shown in sterling.

The following types of supply must be identified separately:

- sale;
- hire-purchase, conditional sale, credit sale or similar transactions;
- loan;
- exchange;
- hire, lease or rental;
- process (making goods from someone else's materials);
- sale on commission (for example, by an auctioneer); and
- sale or return or similar terms.
- a description which identifies the goods or services supplied.



- 8 A VAT invoice is not only the legal document by which we can reclaim VAT from HMRC but the taxpoint shown on a VAT invoice commits the vendor to paying that VAT to HMRC, irrespective of when we make a payment.
- 9 Documents headed **Pro-forma** or (not surprisingly!) **‘This is not a tax invoice’** are not allowable as VAT invoices. Where payment is made against such invoices the VAT must be included as a cost element and the invoice coded VN (please see paragraph 13 for further guidance on SAP coding) and later when the vendor supplies a tax invoice an appropriate journal adjustment should be made.

### **Evidence for input tax**

- 10 Vendor invoices once received should be posted to the SAP system as soon as possible to enable VAT to be reclaimed. This not only helps our cashflow in reclaiming the VAT from HMRC but complies with the rules which require the input tax to be reclaimed in the period in which the taxpoint on the invoice falls.
- 11 Original invoices, not copies, must be held to substantiate the recovery of VAT as input tax. However, electronically submitted invoices can now be accepted as evidence.

### **Credit Notes**

- 12 A credit note should contain the same information as a VAT invoice. It must refer to the original supply and be in respect of a genuine error or change in the value of a supply. A credit note cannot be accepted in lieu of a bad debt.

#### **Box 4**

#### **Warning!**

#### **Capital Projects and Partial Exemption**

The special refund scheme allowing VAT recovery has restrictions as far as VAT is incurred on business related activities. If we incur capital costs on a building or land that will then be sold or leased under a commercial arrangement then you must inform the Council VAT Officer at the earliest stage so as to manage the VAT position. This can apply where we have industrial or development sites rented out to starter businesses where rental income is exempt. It could apply to a school with significant sports facilities. In all such circumstances we must monitor the expenditure incurred against all such income for VAT purposes.

The Council under a special rule known as ‘Partial Exemption’ is allowed to reclaim all VAT incurred on non-business activities. However, where the Council incurs VAT on business activities and those business activities involve exempt income such as rent or adult education all expenditure must be monitored. The Council can reclaim all of its VAT on such expenditure as long as it totals no more than 5% of **all VAT** incurred in a financial year. So for instance if the total VAT is £50m the maximum VAT we are allowed to recover

on business activities with exempt income is £50m x 5% = £2.5M. Hence the need to monitor capital expenditure, please also note if we exceed the £2.5m we lose all input tax not just the excess.

Please also note that where capital expenditure on land or buildings exceeds £250,000 the Council VAT Officer **must be informed** as under the partial exemption rules a later change of use can impact on the Council's VAT position.

### Box 5

#### Example of VAT Invoice

From supplier

Supernova Computer Suppliers Ltd  
Button Moon House  
High Street  
Hotton  
HOA XTC

Taxpoint/date 5th January 2011  
9999 99  
Invoice 01/11

VAT registration 999

Supplied to

Derbyshire County Council  
Corporate Resources  
County Hall  
Matlock  
DE4 3AH

Quantity; 100 laptops PC199X model at £399 per unit = £39900

One year's maintenance, service and support = £10000

Sub-total Goods £49900

VAT at 20%      £9980

Gross Total      £59880

Terms payment within 30 days

## SAP Coding

- 13 The coding list follows, please refer to the **Mini Guide for Invoice Coders** with respect to entering tax codes to the SAP ledger. Invoice posters and approvers should check that you are entering the correct VAT code in the tax column and if in doubt please seek help from the Council VAT Officer. If the wrong tax code is entered at this stage then VAT will be incorrectly accounted for. Orderpoint 'shoppers' should ensure that the VAT position is understood as items purchased through Orderpoint will default to 20% standard-rate, therefore it is vital where the VAT rate is different that this is adjusted. **Please also ensure that where different rates of VAT are shown that these are correctly identified.**

- VA = Standard-rate 20%
- V2 = Reduced rate 5%
- V0 = Zero-rated e.g. books, passenger transport, children's clothing
- V9 = exempt e.g. rent or lettings, health care, insurance payments
  
- VN = non-business this will include any grants issued, statutory fees, recharges from other Councils (although these could just as well fall as standard-rated or zero-rated). Also non-VAT registered vendors cannot charge VAT.

### Previous rates

- V1 = Standard-rate 17.5% - from 1st January, 2010
- V5 = Standard-rate 15% - from 1st December 2008 – 31st December 2009

### The 'Reduced Rate'

The default VAT rate is the standard-rate but legislation applies for a reduced or lower rate for certain activities. In the UK the common reduced rate is the zero-rate, this is a taxable rate but the rate is zero. In recent years a new reduced rate of 5% has been introduced – under EC law no new rates can be introduced lower than 5% but the UK is allowed to keep its zero rated items.

The most common area for the 5% rate is fuel e.g. gas, electricity, heating (not motor-fuel) for what is termed a 'qualifying' use. Diocesan and Foundation schools are allowed the reduced rate, their qualifying use being charitable status – this triggers the exemption from the Climate Change Levy. From time to time such schools will be approached by fuel suppliers for confirmation of charitable status, at which point they should seek help from Corporate Procurement who usually provide the supplier with a list of qualifying schools. However, the reduced rate can apply where low levels of fuel are supplied to buildings anywhere in the County as the low-level (set out in detail in legislation) is treated as qualifying.

**Please note the code V0 should only be used for zero-rated items and**

**not as a fall back where you are unsure of the VAT code..** If you are issuing a grant then it will clearly fall as VN non-business unless there is a supply from the grantee back to the Council. If you are unsure whether a payment is a grant or a payment for services or goods in return please speak with the VAT Officer.

### Extract Mini Guide for Invoices Coders - DNET - Finance - SAP

The screenshot displays the SAP 'Approve Invoice' screen for invoice 190000947. The vendor is 'Bluebells & Balloons (JAT)'. The invoice amount is 100.00 GBP, with a due date of 01.03.2010. The tax amount is 0.00, and the net amount is 100.00. The expense type is 'ST-Standard'. A callout box labeled 'TAX (VAT Field)' points to the VAT code field in the accounting table, which is currently set to 'V0'. The accounting table shows a balance of 50.00 and a table with columns for Percent, Description (Line Item Text), Co, T, Assignment Number, and Quantity. The table contains one row with a 50.00 percent and a description of '1000 V0'. The interface also includes a 'Logged Action' section with a 'COMMENTS SUMMARY' and buttons for 'Add Comments', 'Approve', 'Reject', and 'Return to Inbox'.

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#### Reminder VAT codes

- VA = Standard-rate 20% (from 4th January 2011)
- V2 = Reduced rate 5%
- V0 = Zero-rated e.g. books, passenger transport, children's clothing
- V9 = exempt e.g. rent or lettings, health care, insurance payments

VN = non-business this will include any grants issued, statutory fees, recharges from other Councils (although these could just as well fall as standard-rated or zero-rated. Also non-VAT registered vendors cannot charge VAT.

#### Retail invoices

15 Items purchased from a retailer for less than £250 (VAT inc) do not require a

full VAT invoice. A less-detailed retailer's invoice does not require the customer's details and need only show the gross paid including VAT, although it should show a description of goods /services and the rate of VAT charged. Please watch out for supermarket till receipts that are not retail invoices but merely receipts for the payment card.

## Discounts

- 16 Some vendors allow a discount for prompt payment, the VAT calculated on the invoice usually reflects the discount given. If the payment is made outside the discount period no adjustment for VAT is required please see **Box 6** for further details

### Box 6

### Discounts

One typical example of a vendor offering a discount is City Electrical Factors ('CEF'). This company allows for a 2½% discount for payment within a specified period, usually 30 days. The thing to note is that the **VAT never changes on a CEF invoice** it will always be calculated on the assumption that the discount is taken, even if it isn't. The VAT sum should therefore never be adjusted on a CEF invoice and in general this is what HMRC would expect because the same VAT is paid over by CEF as is recovered by the Council.

For example a typical CEF invoice might show the following.

- Net £100.00
- VAT @ 20% £19.50 ( = £100 x 97.5% x 20% - the VAT being calculated as if the discount is taken)
- Gross £119.50 (this is the amount payable unless the discount is taken)

At the foot of the invoice there will be a reference to the discount. You will note that the figures do not add up to the discounted figure, this is because CEF is only discounting the VAT figure at this stage, i.e. £100 x 20% = £20 x 2½% = 0.50p. If you take up the discount you will have to manually adjust the invoice to allow for this to be paid through the SAP system.

- Net £97.50 (£100 - 2½%)
- VAT @ 20% £19.50 (the VAT doesn't change and now reflects the discount)
- Gross £117.00

Please note if you do not adjust the invoice and it is scanned through the VIM system the payment will be entered at the non-discounted sum and your budget will not gain the benefit of the discount.

If you fail to take the discount you will be liable to pay the invoiced amount but as the VAT will now be out of step with the net payable you will have an extra line to complete when posting the payment details.

See the following

- Net £100.00
- VAT @ 20% £19.50 (remember the VAT sum is always on the net discounted figure)
- Gross £119.50

In SAP this will require the following entry to reflect the sum paid of £119.50

- GL account £97.50 coded VA
- VAT £19.50
- GL Account £2.50 Coded VN ('the loss of the discount')

**Remember – Incorrect coding of VAT can be costly to your budget in more ways than one. You could receive a penalty for a careless error or your budget could be charged for expenditure that should be recovered from HMRC – don't let HMRC take away your budget share!**

### Foreign transactions

- 17 Invoices received in a foreign currency must be converted to UK sterling by the supplier at the rate applicable, typically as printed in national newspapers at the taxpoint of the invoice.
- 18 **If you purchase goods or services from overseas please speak with the Council VAT Officer before making the purchase** as there are reporting requirements to HMRC which must be followed. If you are charged VAT from another member state then this potentially becomes a cost to you as we cannot reclaim VAT charged from other member states but if we provide our VAT number (**GB127 2481 78**) this will usually avert a VAT charge. The vendor in the other member state will include our VAT number on its VAT invoice and not charge VAT, please code this to **VN** when you post to SAP. The Council VAT Officer also requires a copy of any invoice received from your supplier. There are certain services supplied from other member states where local VAT must be charged and this will not be recoverable. A full list of member states is included in Annex 3.
- 19 If you purchase goods from outside the UK then you will have to pay VAT on import entry, except for very small purchases known as 'Low Value Consignment Relief', where the value is below £15. **Services supplied from outside the EU must also be notified to the Council VAT Officer.-** please also see **box 7** below. The Government recently introduced legislation to exclude the Channel Islands from Low Value Consignment Relief so all purchases of goods from the Channel Islands from 1<sup>st</sup> April 2012 are subject to VAT on import whatever the value.

### **Box 7 Overseas transactions**

Purchasing from abroad creates particular VAT accounting issues. Please inform the VAT Officer should you acquire goods or services from another member state or from outside the EU. HMRC requires special reporting of such transaction so please provide copies of invoices received. Goods purchased from another member state are treated as intra-community acquisitions and goods imported are subject to VAT at import. Your shipping agent will usually pay this VAT at point of entry and seek reimbursement from you as a commercial debt. This VAT can only be reclaimed from HMRC on receipt of a C79 form.

### **.Construction Industry - Authenticated receipts**

- 20 Special rules apply to services supplied within the construction industry. These recognise that in construction contracts stage or interim payments are made and that contractors issue interim requests for payment. HMRC allows a method known as the **authenticated receipt** ('AR') procedure to be used in these circumstances. An AR document is not a tax invoice it merely allows for the customer, in this case the Council, to reclaim the VAT at the point the payment is made. When the payment is received the contractor pays the VAT to HMRC. Under the AR procedure a tax invoice must not be issued by the contractor.
- 21 When making a payment please watch the date when you make the payment. Please note ideally payments should not be made less than 4 working days from a month end, this allows for bank clearance so that we do not reclaim the VAT in one month and the contractor pays the VAT over in the next month – the VAT should be accounted for in the same month by both parties. For example
- Council issues a certificate to contractor agreeing to pay £100,000 plus £20,000 VAT.
  - payment is made 25th of month
  - payment clears contractor's bank account 29th of Month

This is okay as the VAT will be accounted for in the same month

However,

- Council issues certificate on 31st of month and payment is made
- payment clears bank 4th of following month

This is not okay as the contractor will pay VAT over to HMRC in following month but we will include VAT as input tax in month authorised.

- 22 Having received the payment certificate the contractor should return it 'authenticated' as showing payment received. This must be kept as evidence for VAT purposes. If a contractor fails to return a certificate, the next payment must be delayed until the certificate is returned.

### **Private Finance Initiative ('PFI')**

- 23 PFI has been around for nearly 20 years. The idea is that within a public/private sector partnership an asset is designed and built by an operator who then supplies the completed building to the public body in the form of a service charge. The basic VAT position is that the Council will receive a unitary charge by the PFI operator for the provision of a maintained building. VAT would normally be charged and this VAT should be recoverable provided the building is being used by the Council for its non-business activity, for example the provision of a school. Complications can arise particularly where third-parties are involved or for example when schools convert to academy status. Early involvement of the Council VAT Officer is essential in such projects.

#### **Box 8 Property and Construction Contracts**

Property and construction contracts often involve large sums and the potential for error can lead to significant penalties if the system fails to work so please speak with the VAT Officer if you have any questions over the nature of a capital project.

When agreeing a lease or interest in property the VAT position must be cleared before contracts are agreed. If a landlord intends to charge the Council VAT on rental payments then you should ask for confirmation from the landlord or its legal representative of appropriate evidence to allow for a VAT charge. Commercial landlords often 'opt' to charge VAT on what would otherwise be exempt supplies, in such cases we would want to see copies of correspondence between them and HMRC.

**Please also note the issues surrounding exempt activities in Box 4**

### **Vehicles**

- 24 When we purchase commercial vehicles VAT recovery is allowable whether purchased outright or leased. The purchase of a car is not allowable for VAT recovery except in strictly limited and defined circumstances, for example pool cars that are always garaged in a County compound and never taken home. You should seek advice from the Council VAT Officer if you are unsure of the VAT position on purchase of a vehicle.
- 25 Where cars are leased then the lessor will charge VAT and we can reclaim 50% of the VAT charged – this is usually highlighted on the VAT invoice by the leasing company. The 50% 'block' is effectively a proxy for private use on the grounds that the car will be used for private purposes such as home to work travel. This would not apply if the car was prohibited from any private use under the above availability test. Rental cars are also allowed 100% VAT recovery for 10 days, except where the car is replacing a lease car.



### **Car or Van?**

26 Although in general cars can be readily distinguished from vans there is often a fine line between the two. In practical terms two types of vehicle often cause confusion, one is the land-rover type of SUV and the other the twin-cab. There are two key tests

- whether the vehicle is constructed or adapted solely or mainly for the carrying of passengers or
- there is roofed accommodation with side windows behind the driver's seat
- there is an additional test that excludes a vehicle from being a car and that is if it has a payload of one tonne or more. If in doubt please speak with the Council VAT Officer before purchase.

### **Travel expenses**

27 The current system, in place since 2006, allows for VAT recovery on the fuel element of mileage allowances paid to staff, members and volunteers. The mileage rates as agreed with the NJC are published annually and the amount of VAT recoverable is the fuel element as published x 1/6 (the VAT rate currently being 20%). When you complete your mileage/expenses claim you are asked to state whether you have a valid VAT receipt, if you say no to this question then the VAT will not be recovered by the Council

28 Under rules laid down by HMRC all claimants must keep a copy of a VAT receipt obtained from the fuel supplier **prior to any trip**. You are responsible for keeping your own receipts and should keep them for four years as HMRC might ask to see evidence at any time. If you do not obtain and keep a VAT receipt prior to travel the cost will be included the relevant budget and the Council will lose out.

### **Subsistence and petty cash payments**

29 Where meals and other ancillary costs are actually reimbursed (rather than a subsistence allowance) then VAT can be reclaimed by the Council provided the expenditure is on official Council business, although this does not extend to volunteers. In such cases a retailer's invoice should suffice but please note in certain circumstances no VAT receipt need be issued by the supplier under HMRC's administrative powers. This includes the following provided the value is £25 or less including VAT,

30 Some off-street car parking machines issue a receipt showing VAT but there is no legal requirement. The supplier must be VAT registered so you would expect to see some reference to this on any receipt issued.

### **Mayor's and Chairman's Allowances**

31 Where a local authority, under Section 176 of the Local Government Act

1972, pays the expenses incurred by the mayor and deputy mayor, chairman or vice-chairman when acting in their official capacity, the local authority may recover the VAT incurred, subject to the following conditions being met:

- the local authority accepts responsibility for the actual expenses incurred and enters them in its normal accounts
- the goods or services are ordered in the name of the local authority and invoices are addressed to the local authority
- adequate documentation is retained to support claims for refunds of VAT.
- If the civic allowance is given in the form of money placed freely at the disposal of the recipient, any expenditure will not be regarded as made by the local authority and VAT will not therefore be recoverable in these circumstances.

### **Local Election Expenses**

- 32 The local authority for which the election is held will be eligible to claim a refund of any input tax incurred by its agent, the returning officer, on purchases from any taxable person provided that proper tax invoices are available to substantiate the claim. The Home Office reimburses expenses for Parliamentary and European elections inclusive of VAT.

## Annex 1

### Accounts Payable ('AP') - Items where no VAT Charged by Vendor

The SAP AP system requires an appropriate VAT code for all entries but where no VAT is shown on a vendor invoice this can cause a problem in identifying the correct code. The item could fall into one of three categories.

- V0 = Zero-rated
- V9 = Exempt
- VN = Non-business

A vendor has no legal requirement to identify VAT unless there is a positive rate of VAT. We accept that coders do not have the knowledge to accurately identify why no VAT is shown. The following is meant to assist in identifying as far as possible the correct code. **Please note V0 is not the default and it might well be the case that most payments are more likely to be VN where no VAT is due.**

Typical examples

V0 = Zero-rated

- books, magazines, coach transport (with driver), food, (but not catering), children's clothing, water and sewerage (except for defined industrial use)  
These are examples and as always with VAT there are exceptions to the rule.

V9 = Exempt

- rents and lettings (except where landlord has 'opted to tax') insurance premiums, training and educational courses, stamps, credit services, health and welfare services but please note many charities now supply services at the standard-rate. Exemptions to some degree are more complicated but in general we would not expect to see significant exemptions outside of the above areas.

VN = Non-business

- this includes anything for which no 'supply' of goods or services is received, so typically will include,
- grants, termination payments, pension payments, salaries, compensation payments etc.

Please note if paying on a **Summary of Accounts** it helps Exchequer Payments greatly if you enter the correct VAT code.

## **Annex 2**

### **Just how does the VAT system work? If you are interested read on.**

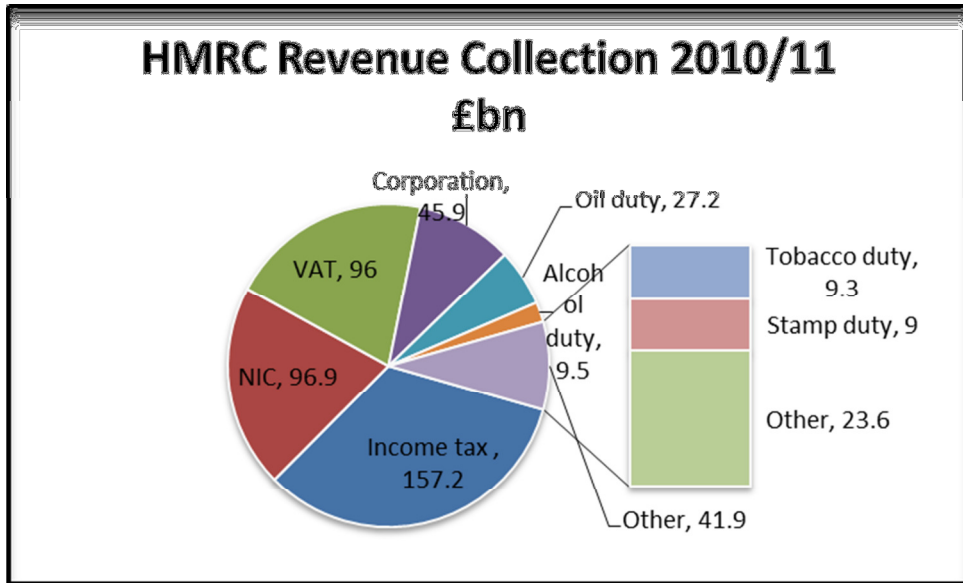
VAT was introduced in the 1972 Finance Act as a result of the UK's entry to the EU. It is a consumer tax, which means what it says; ultimately the final consumer pays the tax when you make a retail purchase. You are the last person in line and the retailer pays over to HMRC the VAT charged on the item sold to you. Before that there is a system in place so that every business registered for VAT charges VAT on its sales and reclaims VAT on its purchases – the difference each tax period – usually every 3 months, is a payment to HMRC. If the country is in a recession or business growth is slow and profitability is down then revenues are also likely to be down.

When VAT was introduced it was seen as a 'simple' tax and unlikely to cause much by way of problems (the then Chancellor Tony Barber famously was quoted as saying) Furthermore the amounts of revenue were not seen as great compared to direct taxes and it was given to the HM Customs & Excise to manage rather than the Inland Revenue.

In fact Tony Barber was very wrong, it has become one of the most complex of taxes, plus the revenue income to governments has grown massively in line with the consumerism across the EU.

Local authorities operate under a special legal regime that allows VAT recovery for its non-business statutory obligations but we must still operate within the VAT rules as laid down by HMRC and are still liable to penalties for failure to comply.
















A local authority will submit a VAT return monthly in order to obtain a refund of the VAT it has paid over. Each time we submit such a claim we are making a legal statement as to its accuracy, which is why everyone has a role to play in ensuring VAT is posted accurately. This refund each month can vary between £3m - £6m.



### Annex 3

The European Community comprises 27 member states. At the time of writing the list is as follows.

#### Rates as at January 2012

	<b>Member State</b>	<b>Standard-rate of VAT %</b>	<b>VAT Suffix</b>
	Austria	20	AT
	Belgium	21	BE
	Bulgaria	20	BG
	Cyprus	15 (17 from 01/03/2012)	CY
	Czech Republic	20	CZ
	Denmark (except Faroe Islands and Greenland)	25	DK
	Estonia	20	EE
	Finland (except Aland Islands)	23	FI
	France ( except Martinique, French Guyana, Guadeloupe, Reunion and St Pierre and Miqueion but including Monaco)	19.6	FR
	Germany (except Busingen and Isle of Heligoland but including Jungholz and Mittleburg)	19	DE
	Greece (except Mount Athos)	23	EL
	Hungary	25 (plan to increase to 27%)	HU
	Ireland	23%	IE
	Italy (except Livigno, Campione d'Italia and Lake Lugano)	21 (to increase to 23% in 2012)	IT
	Latvia	22	LV
	Lithuania	21 (likely to increase to 23%)	LT

## Public

		<b>in 2012)</b>	
	Luxembourg	<b>15</b>	<b>LU</b>
	Malta	<b>18</b>	<b>MT</b>
	Netherlands	<b>19</b>	<b>NL</b>
	Poland	<b>23</b>	<b>PL</b>
	Portugal (including the Azores and Madeira)	<b>23</b>	<b>PT</b>
	Slovenia	<b>20</b>	<b>SI</b>
	Slovakia	<b>20</b>	<b>SK</b>
	Spain (except Canary Islands, Ceuta and Melilla but including the Balearic Islands)	<b>18</b>	<b>ES</b>
	Sweden	<b>25</b>	<b>SE</b>
	Romania	<b>24</b>	<b>RO</b>
	United Kingdom (includes Isle of Man but excludes the Channel Islands)	<b>20</b>	<b>GB</b>

Public