

VAT training for independent schools

12 November 2024



Scope of VAT

“VAT shall be charged on any supply of goods or services made in the UK, where it is a taxable supply made by a taxable person in the course of furtherance of any business carried on by him”

Supplies:

- By a taxable person of
- Goods or services
- Within the scope of UK VAT
- In the course of its business activity



VAT registration

Threshold currently £90,000

- Exceeded in the preceding 12 months
 - Notify HMRC within 30 days of the month end and registered from 1st day of following month
- Will exceed in the next 30 days alone
 - Notify HMRC within 30 days and registered from beginning of the 30 days

Failure to register at the correct time will result in penalties and no time limit on how far back in time HMRC can register you.

Example:

15 December 2024 – £100,000 fees due to be received for January term

When do we have to notify HMRC?

By 14 January 2025

When is the school registered from?

From 15 December 2024

Education

Education means a course, lesson, instruction or study in any subject (including academic activity as well as performing arts, physical training, sports, arts & crafts). Extra-curricular classes & lessons are included, as additional supplies of education. Non-educational supplies are unaffected by these changes.

'Private school' is 'a school at which full-time education is provided for pupils of school age, or an institution at which full-time education is provided to persons over school age but under 19 (eg sixth form colleges) AND where fees or other considerations are payable for that provision of full-time education.

Includes provision by connected parties

- Closely bound to one another by financial, economic and organisational links
- Connected within the Corporation Tax Act 2010 meaning of 'connected persons'
- Where arrangements have the main purpose or one of the main purposes, to secure the provision as an exempt supply

Excludes nursery schools/nursery provision



How VAT works



How VAT works

Pre-registration costs

Costs incurred prior to the effective date of registration can be claimed in the first return, subject to the following:

Services – those incurred in the 6 months prior to EDR

Goods – those incurred in the 4 years prior to EDR and that are still held at the time of registration

HMRC guidance

“The incurred VAT may need to be apportioned over the economic life of the goods (normally 5 years) and be based on the:

Taxable period of use

Exempt period of use”



Example



Pre-registration costs example

- IT licence bought in September 2024 - £100 VAT

Recover £100 in first return

- Gym equipment bought in January 2024 - £500 VAT

48/60 months of economic life left
£400 recover in first return

Capital Goods Scheme



Expenditure of:

- £250k net or more, plus VAT, on land or building
- £50k net or more, plus VAT, on computer equipment, aircraft, ships, boats and other vessels

Initial VAT recovery made on basis of first use, then subject to review

- Land/buildings: one-tenth reviewed each year for ten years
- Others: one-fifth reviewed each year for 5 years

If the level of taxable use has increased or decreased, an adjustment is included in the second return after your VAT year end

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Standard rate VAT is due unless specifically removed from charge, for example...

- Supplies of goods or services that are closely related to education*
- Welfare goods or services*
- Books*
- Uniform*
- Land
- Sports facilities*



Supplies of goods and services closely related to education

For the direct use of the pupil, student or trainee

AND

necessary for delivering the education to that person

- Catering
- Transport
- School trips



Welfare services and connected goods

Provided by a charity, state-regulated institution, or public body

AND

Directly connected with the care or protection of children and young persons

- Nursery
- Holiday clubs
- Pre and post school care



Books and uniform



Both capable of being zero rated provided conditions are met.

Preferable to exemption due to partial exemption calculations on recovery of cost.

Sports facilities



Normally standard rated unless:

Let is for over 24 hours

OR

Series of lets rules

When becomes exempt

Series of lets has a number of conditions including that the user is themselves a *“school, club, association or an organisation representing affiliated clubs or constituent associations, such as a local league”*

How VAT works



Partial Exemption

Where you make taxable and exempt supplies and incur input tax relating to both you are considered to be partially exempt.



Taxable – VAT on expenditure which relates directly to your taxable sales is fully recoverable – this could be costs exclusively for your sixth formers education

Exempt – VAT on expenditure relating directly to exempt supplies is not recoverable – this could be costs exclusively for your nursery provision

Overhead/residual - VAT on expenditure which relates to both exempt and taxable supplies gets apportioned between the two based on a partial exemption percentage.

Partial Exemption

Overhead/residual

- Examples of expenditure which could relate to both exempt and taxable supplies is accountancy fees, stationery, phone bills, etc. but also anything used for both taxable and exempt activities such as a mixed use building.
- Partial exemption percentage is calculated using a standard method
- This percentage is the recoverable percentage of residual input tax
- Value of taxable supplies in the period (excluding VAT) divided by Total value of supplies in the period (excluding VAT) x 100 = **Recoverable percentage of residual input tax**
- The percentage must be rounded up to the nearest whole number
- This percentage is then applied to the value of your residual input tax, the value which is then produced is the amount of residual input tax that can be recovered.

Example:

- Value of taxable supplies in the period (excluding VAT) - £100,000
- Total value of supplies in the period (excluding VAT) – £170,000

What is the recovery percentage for overhead costs?



Partial Exemption

Overhead/residual

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- This percentage is then applied to the value of your residual input tax, the value which is then produced is the amount of residual input tax that can be recovered.

Example:

- Value of taxable supplies in the period (excluding VAT) - £100,000
- Total value of supplies in the period (excluding VAT) – £170,000

Percentage calculation – $100,000/170,000 \times 100 = 58.82\%$

Rounded = 59%



Partial Exemption

De minimis rules

Two limits are:

- Your exempt input tax cannot be more than £625 per month on average
- Your exempt input tax cannot be more than half of your total input tax in the relevant period
- You must apply the de minimis rules every time you prepare your VAT return.

Annual adjustment

- At the end of your partial exemption year (Mar/Apr/May) you need to apply the de minimis rules to the year as a whole and make an adjustment to correct any over- or under-claim
- Adjustment is reported in either the last return of your VAT year or the first return of the next year (Jun/Jul/Aug)



Reverse charges

Services bought by business from suppliers outside the UK are subject to UK VAT under the B2B place of supply rules.

The UK recipient then has to subject that purchase to UK VAT by “pretending” it was sold by a UK business – this is known as the reverse charge.

VAT return entries are required as follows:

- Box 1 – output VAT at the appropriate UK rate
- Box 4 – input VAT recovered
- Box 6 – sales equal to the value of purchase
- Box 7 – purchase value



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Example

A partially exempt business buys an IT license from the US, costing £300. Its recovery rate is 2%.

What entries go on its VAT return?

- **Box 1 - £60**
- **Box 4 - £6**
- **Box 6 - £300**
- **Box 7 - £300**

The UK Exchequer has benefitted by £54

Option to tax (OTT)

When land is opted to tax any supplies made of your interest in the land are then taxable

Land - Where land is opted to tax any supplies made of the land must charge VAT at the prevailing standard rate

Option to tax land – covers all the land, and any buildings or civil engineering works which are part of the land.

Option to tax buildings - cover the whole of the building, and the land under the building and within its curtilage

Need to notify HMRC withing 30 days of deciding to opt to tax a piece of land – this can be done by completing a 1614A form and sending it to HMRC

NB the option to tax sticks with the VAT registration and not with the property if it is sold on



Option to tax (OTT)

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Example:

Property freehold purchased by a business intending to let to a tenant.

They incur VAT on the purchase.

How can they recover the VAT on the purchase?

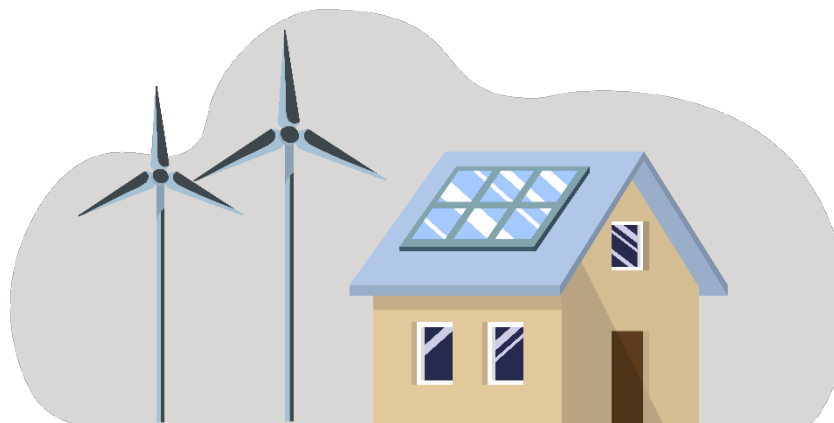
Freehold



Tenant



Sub-tenant



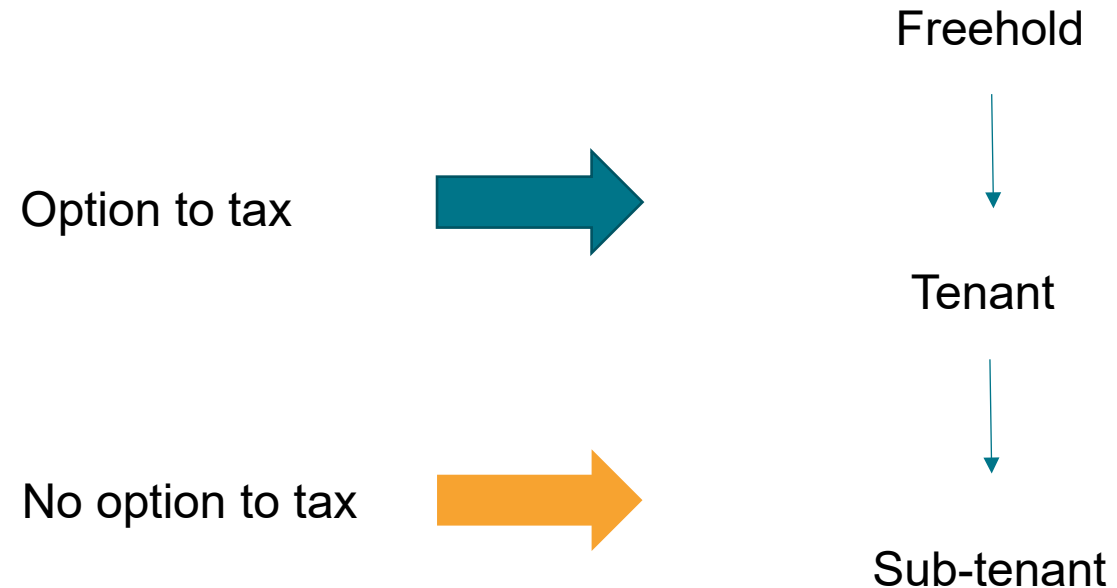
Option to tax (OTT)

When land is opted to tax any supplies made of your interest in the land are then taxable

By opting to tax the freeholder will be able to recover VAT incurred on their property related costs.

NB the option to tax does not automatically flow down the chain.

The tenant will be receiving exempt rental income from the sub-tenant unless they also opt to tax.



Option to tax

Exclusions

For some supplies the option to tax will not apply, this includes the below supplies but is not limited to:

- Buildings designed, adapted, or intended for use as dwellings or relevant residential property
- Buildings for conversions into dwellings
- Land sold to a relevant housing association
- Land sold to an individual for the construction of a dwelling
- Pitches for residential caravans
- Land/property to a charity for their charitable use



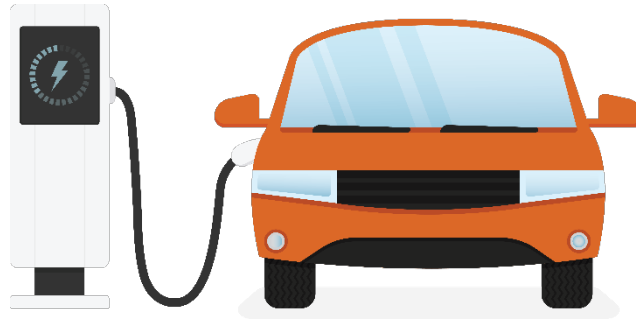
Staff houses

- Accommodation is often provided for staff because it is necessary for the performance of the job, or because no accommodation is available commercially nearby
- VAT on costs for property that is provided to employees free of charge is treated as overhead input tax of the business, including where occupied by retired employees.
- If the employer charges a rent to the employee, that will bring any costs into the partial exemption rules.



Cars

- VAT on the purchase of a car is blocked from recovery UNLESS you can demonstrate that the car is not available for private use and is not so used e.g. pool cars.
- VAT on leasing cars is subject to a 50% block (a proxy for private use)
- Maintenance charges are recoverable provided a separate charge is raised for these
- Fuel
 - Claim business mileage only using detailed records
 - Claim all and apply fuel scale charge
 - Claim none



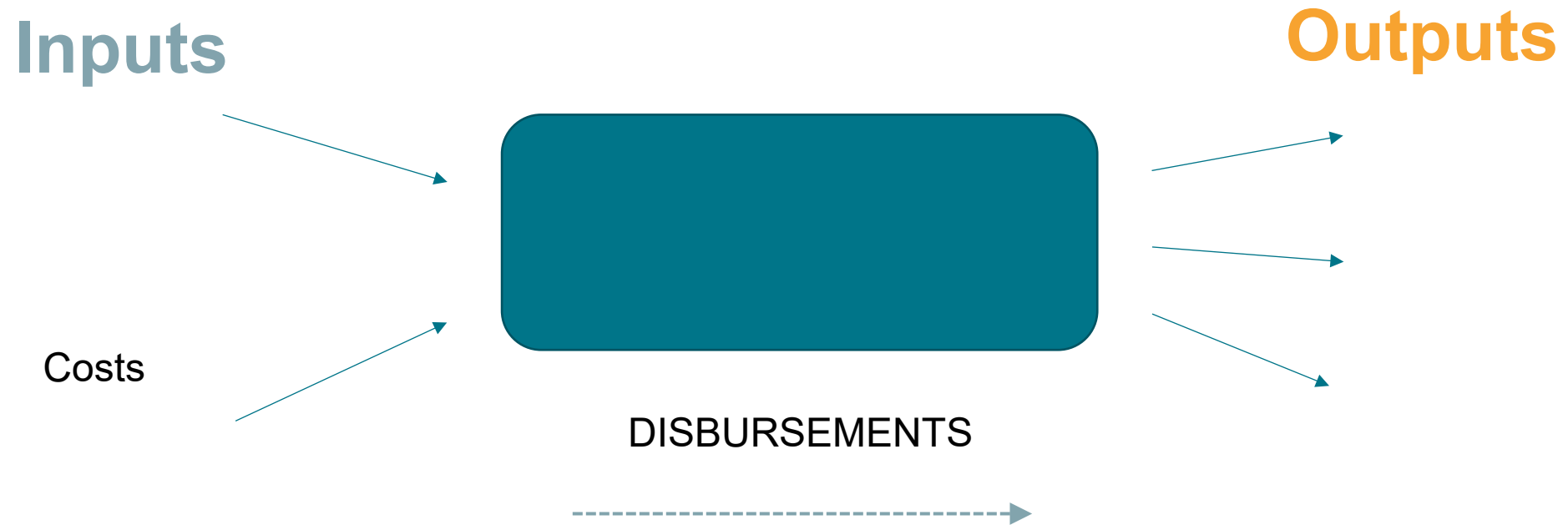
What is a disbursement?

Per HM Revenue & Customs...

- You paid the supplier on your customer's behalf and acted as agent of your customer
- Your customer received, used or had the benefit of the goods or services you paid for on their behalf
- It was your customer's responsibility to pay for the goods or services, not yours
- You had permission from your customer to make the payment
- Your customer knew that the goods or services were from another supplier, not from you
- You show the costs separately on your invoice
- You pass on the exact amount of each cost to your customer when you invoice them
- The goods and services you paid for are in addition to the cost of your own services



Disbursements



Not a disbursement

Invoice example	
	£
Services and hours	500
Train fare to meeting	60
Postage	10

	570
VAT at 20%	114

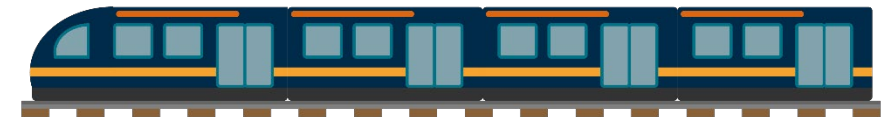
	684
Disbursements incurred on your behalf	85

Amount due to payment	719

Costs that you incur in carrying out your services are **not** disbursements

Typical examples include:

- Travel Costs
- Postage costs



Bad debt relief

- Once an invoice remains unpaid for 6 months past its due date, there is a presumption that an adjustment for VAT on the bad debt will be claimed by both the supplier and the customer.
- Supplier will have paid over output VAT on the invoice, but not received payment, so reduces their output tax
- Customer will have claimed input tax on the invoice, but not made payment, so reduces their input tax claim



Basic VAT return checks

- Is 20% of Box 6 = Box 1?
 - If not, why not? Does that seem reasonable for this business?
- If there are nil VAT values, that suggests zero rated or exempt sales
 - Zero rated sales indicates potential exports, evidence held?
 - Exempt sales indicates input tax restriction, check partial exemption is correct
- Is the VAT due in line with the same quarter last year? And with the previous 3 quarters?
- Check purchases for any non-UK suppliers
 - Reverse charge?
 - Import VAT? If so, evidence held?
- Entertaining and cars correctly blocked?
- Any capital transactions that might not be invoiced?
- VAT invoices in registration's name held as input tax evidence?
- Any private/non-business use of business assets?
- Domestic reverse charge applicable on construction?
- Bad debt relief on invoices >6 months old?

Administration



VAT return and payment is due to HMRC one month and 7 days after the period end

March quarter end, due date 7 May

- Submission must be made online under Making Tax Digital, will require your system to either have ability to submit returns digitally or use an API enabled spreadsheet to upload to HMRC
- Recommend setting up a direct debit arrangement to ensure payments are not missed or late
- Consider obtaining Tax Enquiry Protection cover in case of HMRC compliance checks

Get in touch



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