

# VAT Guidance

## Contents

1. What is VAT?
2. Why is VAT Important?
3. When is VAT Charged?
4. VAT Classifications
5. Rates of Tax
6. VAT and Local Authorities
7. VAT and Cambridgeshire County Council
8. Tax Points
9. Invoices

# 1. What is VAT?

## 1.0 Introduction

Welcome to Cambridgeshire County Council VAT Guidance.

The purpose of this guidance is to explain the basic principles of VAT, followed by the fundamental rules, and concluding with pointers as to what is/is not subject to VAT.

Encapsulating a changing, wide-ranging and often complex subject into a few pages makes it is necessary to leave some questions unanswered. If you would like further details, advice or have suggestions for additions to the VAT Guidance document please feel free to contact the VAT Team.

Any suggestions, questions or comments to:

Tax Team: Kim Kent Augustin  
Graham Moulds  
Michelle Parker

Email: [tax@cambridgeshire.gov.uk](mailto:tax@cambridgeshire.gov.uk)

The Council's VAT Team are responsible for ensuring that all parts of the County Council comply with VAT legislation and for completing VAT returns. To assist with this, additional advice and guidance may be issued as required to supplement this VAT Guidance document.

If you have any queries that are not answered by this document, please contact **THE COUNCIL'S TAX TEAM; UNDER NO CIRCUMSTANCES CONTACT HMRC DIRECTLY**. Local authority VAT matters are handled by specific teams within HMRC; advice received from other HMRC contacts (including HMRC National Call Centre) may not accurately reflect specific arrangements agreed by the sector with HMRC.

## 1.1 Background

Value Added Tax was introduced in the UK on 1st April 1973 by the Finance Act 1972.

Successive Finance Acts have made amendments to the law which have been consolidated first by the Value Added Tax Act 1983 (VATA 1983) and subsequently by the Value Added Tax Act 1994 (VATA 1994), which took effect from 1 September 1994. The Acts provide the framework of the tax but much of the detail is covered in statutory instruments in the form of *orders* made by the Treasury or *regulations* made by HM Revenue and Customs (HMRC).

## 1.2 HMRC explanatory notices & associated leaflets on VAT

These explain how HMRC interpret the law but, with certain exceptions, is not part of the law.

### 1.3 What is VAT?

It is a tax on consumption or expenditure and is levied on both goods and services.

VAT is a cumulative tax (levied at each stage of the supply chain) on turnover. It is levied on the supply of goods and services made for consideration i.e. in return for payment, in the course or furtherance of business.

### 1.4 Basis of the Tax

As VAT is a tax on consumption or expenditure it is collected on business transactions and imports.

Most business transactions involve the supply of goods or services. VAT is payable if they are:

- made in the United Kingdom or the Isle of Man;
- made by a taxable person;
- made in the course of furtherance of business; and
- are not specifically exempted or zero-rated.

Supplies which are made in the UK or the Isle of Man and which are not exempt are called **TAXABLE SUPPLIES**.

### 1.5 Categories of VAT

In summary there are 5 categories of tax, as follows:

Standard-Rated - 20%

Reduced-Rated - 5%

Zero-Rated - 0% (see 5.4)

Exempt - No VAT (see 5.5)

Non-Business/Outside the Scope - No VAT (see 5.3).

### 1.6 Terminology

Output Tax - VAT on Sales/Supplies (relates to income); this is paid to HMRC.

Input Tax - VAT on Purchases (relates to expenditure); this is reclaimed from HMRC.

### 1.7 Key Underlying Risk to the Council

One of the key underlying risks to the Council is **not applying the correct category of VAT**, when raising income invoices. **If in doubt, please seek advice from the Council's Tax Team.**

**The default presumption should be that tax is due, and non-tax codes used only if you are certain that tax is not due**

## 2. Why is VAT important?

### 2.1 Liability to Tax

Any Local Authority making taxable supplies (invoicing for income), including zero-rated supplies, in the course of its business must be registered for VAT regardless of the value of its annual taxable supplies.

### 2.2 Local Authority Position

The belief that a local authority does not pay VAT is incorrect. In the course of the authority's business in any accounting period the tax paid on purchases (INPUT TAX) is almost certain to be greater than that deducted from income received for goods and services supplied (OUTPUT TAX) and the authority is therefore entitled to a refund of the difference from HMRC.

Certain parts of VAT legislation apply specifically to Local Authorities. The Finance Act of 1994 allows Local Authorities to reclaim VAT on non-business activities.

### 2.3 Non-Business (Outside the Scope of Tax)

Statutory Monopoly

Provision of free services and information

Services funded by Council Tax/Business Rates

Activities carried out under a special legal regime where there is no significant distortion of competition.

### 2.4 VAT Inspections

HMRC carry out a programme of inspections of VAT registered bodies. The HMRC Officer can choose to examine any aspect of the authority's activities to ensure compliance with current VAT legislation.

The HMRC officer has the legal power to "require taxable persons to produce documents or provide information".

Visits are agreed in advance with the County Council.

### 2.5 Assessments / Penalties

An HMRC Officer is empowered to issue an assessment of tax where they believe VAT has been mis-declared.

### 2.6 VAT Errors

**All** VAT errors **MUST** be reported to the Council's Tax Team who will advise on the correct action to be taken. Failure to report errors may result in the Council being assessed for mis-declaration of tax or penalised for breach of VAT regulations.

**All interest charges and penalties imposed by HMRC as a result of this will be borne by the Budget Holding department responsible for the error.**

**VAT errors can be costly, ask the Tax Team if in doubt.**

## 2.7 Voluntary Disclosure

The Council's VAT Team are required to make voluntary disclosures at any time provided that HMRC are not looking into that particular aspect of the Council's VAT. Disclosure of error may involve paying across the amount owing to HMRC, plus any interest charges for overdue payment and may incur penalty charges. Non-disclosure of an error discovered by HMRC during their compliance checking will incur severe penalties, of up to 100% of the additional tax due.

**Penalties are borne by the budget code in which the error occurred**

Type of behaviour	Unprompted disclosure	Prompted disclosure
Reasonable care	No penalty	No penalty
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%

## 3. When is VAT charged?

### 3.1 VAT is charged:

- on taxable supplies (sales) of goods and services made in the UK or Isle of Man;
- on the acquisition (purchases) in the UK or Isle of Man of any taxable goods or services.

Output tax is not chargeable on exempt supplies or normally recoverable on related input tax. Where both exempt and taxable supplies are made, the rules relating to PARTIAL EXEMPTION are applied and only part of the input tax may be reclaimable.

### 3.2 Conditions for charging VAT:

- there must be a supply;
- the supply must be a supply of goods or services;
- the supply must be a taxable supply i.e. a supply of goods or services made in the UK or Isle of Man other than an exempt supply; and
- tax must be chargeable on the taxable supply. Tax is chargeable when: the taxable supply is made by a 'taxable person' (i.e. a person who is, or is required to be, registered under VATA 1994; Cambridgeshire County Council is a taxable person); and, in the course or furtherance of any business carried on by them.

A person who only makes exempt supplies is not a taxable person and cannot be registered.

## 4. VAT Classifications

### 4.1 Input Tax

This is the tax relating to expenditure.

For local authorities to reclaim the input tax paid on their expenditure the authority must:

- have placed the order;
- be the beneficial owner of the goods or services provided;
- be in receipt of a tax invoice which shows the VAT incurred; and
- have made the payment from their own funds.

### 4.2 Output Tax

This is the tax relating to income. It is the tax charged on any supply of goods and/or services made by a registered body or person within the UK.

### 4.3 Non-Business or Outside the Scope

These are supplies that are made other than in the course or furtherance of business. They may be purely private or personal activities, certain philanthropic, religious or political activities.

In the case of local authorities, activities which are undertaken in their capacity as public bodies (or bodies governed by public law), for example primary and secondary education, some provisions of social services welfare care, trading standards and maintenance of highways etc., are regarded as non-business activities and no VAT is chargeable in respect of the activities even if specific charges are levied.

Although such activities are not undertaken 'in the course or furtherance of business' local authorities are allowed to recover VAT on expenditure incurred in connection with those activities under a special provision called section 33 refund of the VAT Act 1994.

**However**, any supplies made by a local authority which are actually, or potentially, in competition with the private sector are known as 'business supplies' and are subject to normal VAT rules.

Non-business supplies may be made, (if legislation allows), at a profit.

### 4.4 Business

VAT is collected on business transactions.

## 5. Rates of Tax

There are five categories into which supplies of goods and services are grouped: standard-rated, reduced-rated, non-business/out of scope, zero-rated and exempt. Some examples of goods and services for the different categories are set out below; further details, including links to current VAT notices can be found on the HMRC website: [Rates of VAT on different goods and services](#). **This document should not be viewed as an exhaustive list.** If in any doubt over the correct rate of tax for a transaction, please contact the Council's Tax Team.

### 5.1 Standard-Rated

A registered body or trader must apply VAT at the standard rate (currently 20%) to all of its supplies of goods and services unless they clearly fall within one of the other categories.

### 5.2 Reduced-Rated

The reduced rate of VAT (currently 5%) is a rate of tax applied to specified supplies. Some reduced rate supplies include fuel and power for domestic or non-business use by a charity, children's booster and safety car seats, smoking cessation products (patches and gum), certain mobility aids for the elderly and some energy saving materials permanently installed in dwellings for relevant residential purpose.

*Note: from 15 July 2020 to 30 September 2021, certain supplies of catering and hot takeaway food that would normally be taxable at the standard rate of VAT, were liable to the reduced rate of 5%. From 1 October 2021 to 31 March 2022 this reduced rate was increased to 12.5%.*

### 5.3 Non-Business/Outside the Scope

No VAT is to be applied to supplies of goods and services which fall into this category, i.e. where the authority has a statutory monopoly over supplies of a particular kind, e.g. the provision of services against payment of the council tax or business rates, free provision of most goods and services, and certain supplies under the Local Authorities (Goods and Services) Act 1970.

Examples include:

- Grants;
- On-Street Car Parking;
- Library fines for lost/damaged/overdue items;
- Charge for Marriage Licence;
- Donations;
- Residential care as part of care package.

In certain circumstances charges can be made, or fees collected, provided that this does not lead to significant distortions of competition.

Non-business supplies may be made, (if legislation so allows), at a profit.

## 5.4 Zero-Rated

Certain supplies are designated as zero-rated. This means that although they are subject to VAT the tax applied is at 0%. As taxable supplies, they must be taken into consideration in determining whether registration is required. Where a supply could be either zero-rated or exempt, zero-rating takes priority.

Supplies which fall into this category are defined in Schedule 8 of the VAT Act 1994:

### **Group 1 Food**

Zero rating applies to most food purchased for human consumption right through the food chain. It starts with the live animals themselves which are used for yielding or producing food for humans being zero rated, and also feed for these animals. The objective is that all supplies of unprocessed food for human consumption are VAT zero-rated.

Principal exceptions, hence subject to standard-rated VAT, are:

- Chocolate and confectionery;
- Chocolate biscuits (but other biscuits and all cakes are 0% VAT);
- Savoury snacks (crisps, roasted/salted nuts, popcorn etc.);
- Soft drinks, fruit juices, bottled water and carbonated drinks;
- Ice cream, ice lollies and frozen yoghurt;
- Alcoholic drinks including alcohol-free beverages;
- Chewing gum and bubble gum.

Catering is treated separately from basic food. For VAT purposes:

- Any food or drink prepared for consumption on the same premises is subject to VAT;
- Any hot food or hot drink prepared for consumption off the premises (takeaway) is subject to VAT;
- Supplies from vending machines follow these catering rules;
- Consequently, the only zero-rated catering is of cold items to be taken away for consumption off the retailer's premises, e.g., rolls and sandwiches, cold pies and cold pasties etc. 'Cold' items are defined as those not intentionally sold hot; freshly cooked pies, pasties etc. that are not kept warm but have not fully cooled are considered to be 'cold'.

### **Group 2 Sewerage Services and Water**

These services are VAT zero-rated when supplied to a domestic customer. This refers to mains water supplies not bottled water; distilled water is subject to VAT.

VAT on supplies to commercial customers is determined by their classification within the Standard Industrial Classification issued by the Central Statistical Office. In practice, service industries (offices, shops, schools etc) are eligible for zero-rated water supplies, whereas factories, manufacturers and farms are subject to VAT on their water and sewerage supplies.

As in all areas of VAT it is the supplier's responsibility to apply the correct rate of VAT – in this instance a water company will default to standard-rated VAT upon supplies of water to commercial customers until the customer claims zero-rating by completion of a certificate citing a valid SIC code.



### **Group 3 Books, etc**

Printed reading matter is zero-rated, while stationery is subject to VAT. All non-printed media are subject to VAT, for example CDs, DVDs, and all internet/downloaded material.

Zero-rated examples include books, newspapers and magazines, maps and charts, sheet music, brochures and leaflets.

Exclusions (subject to VAT) include posters, industrial and architectural drawings and plans, calendars, business cards, greetings cards, tickets, wrapping paper, photographs and photo albums.

### **Group 4 Talking Books for the 'Blind and Handicapped and Wireless Sets for the Blind'**

The zero-rating applies only to the supply of specific apparatus and accessories to a charity.

### **Group 5 Construction of Buildings etc.**

This zero-rating applies exclusively to the construction of new or converted buildings intended solely for domestic or charitable use. This includes homes and institutions providing residential accommodation for children, the elderly, the armed forces and the disabled. It does not include prisons, hospitals, nor hotels. Zero-rating is claimed via certification, but the terms are onerous, and the law in this area is complex.

### **Group 6 Protected Buildings**

As for Group 5, the zero-rating is restricted to buildings intended for domestic or charitable use. In this case the qualifying work must be a reconstruction or "approved alteration" to a Listed or Protected building.

### **Group 7 International Services**

Goods sold, sent or transferred out of the UK do not normally need VAT charged on them. Zero-rating is applied to most exports from Great Britain to any destination outside the UK (or from Northern Ireland to a destination outside the UK and EU). The supply of services consisting of the making of arrangements for export of such zero-rated goods is also zero-rated.

The supply of services which is made outside of the UK is zero-rated.

### **Group 8 Transport**

Public transport, whether by road, rail, sea, or air, is zero-rated if the vehicle is capable of carrying 10 or more passengers. This therefore excludes taxis from the zero-rating.

### **Group 9 Caravans and Houseboats**

This is intended to offer zero-rating to inhabitants of these as permanent structures with no mobility, distinct from holidaymakers and leisure purposes. Accordingly, the caravans which are zero-rated are of a dimension which prohibits them from being towed on the roads. Similarly, the houseboats eligible for zero-rating have no means of self-propulsion.

**Group 10    Gold**

**Group 11    Bank Notes**

**Group 12    Drugs, medicines, aids for the disabled, etc.**

This zero-rating needs to be read in conjunction with VAT Exemption Group 7 Health and Welfare.

Drugs and/or medicines dispensed by a pharmacy are zero-rated.

Certain specified aids for the disabled are zero-rated, including specialised means of transport, and specialist adaptations to their private residence to facilitate movement or to ease living conditions. Various medical and surgical appliances for use by the disabled are also zero-rated.

There is no blanket zero-rating for goods and services to the disabled, only those articles specified in the VAT legislation may be zero-rated, and then only upon certification by the disabled recipient.

**Group 13 Imports, Exports etc.**

This is a specialist group, zero-rating imports and exports in special circumstances only, such as international defence projects.

**Group 14    Withdrawn**

**Group 15    Charities, etc.**

The sale of goods which were donated to that charity are zero-rated. However, sales of items conventionally purchased by a charity for resale do not qualify for zero-rating. Supply to a charity of press and cinema advertisements is also zero-rated.

As with goods and services to the disabled, there is no blanket zero-rating for all charities and charitable activities.

**Group 16    Clothing and Footwear**

Clothing and footwear intended for wear by children aged under 14 are zero-rated. This is determined by size, but also requires retailers to clearly promote the items as childrenswear by way of marketing, labelling, display etc.

Safety wear is also zero-rated. This includes: protective headgear for persons riding a motorcycle or pedal cycle; all protective boots and helmets for industrial use (with the exception that an employer may not zero-rate sales of protective wear to his own employees). In each case, the product must meet BSI standards laid down for the purpose.

## 5.5    Exempt

Exempt supplies are specifically exempted from VAT by statute. Where a supply could be either zero-rated or exempt, zero-rating takes priority. Exempt supplies are detailed in Schedule 9 of the VAT Act 1994:

## **Group 1 Land**

This is a complex area of VAT. The VAT exemption is for the supply of a right over land, which includes structures upon that land, by sale, lease, hire, rental, licence to occupy, wayleave etc. However, access which does not confer sole rights over a specific piece of land (e.g., admission to exhibitions and events, rights of way and tolls) is subject to standard-rated VAT.

Items which are specified as NOT exempt but are VAT standard-rated include:

- parking off street;
- seasonal caravan pitches and pitches for tents/camping;
- holiday accommodation;
- mooring rights;
- fishing licence;
- sporting facilities (unless fulfilling specific terms for exemption);
- the right to fell and remove standing timber.

The natural VAT exemption per Group 1 Land may be overridden by the 'Option to Tax' at standard-rated VAT. This is the only Group which offers the facility of the 'Option to Tax'.

## **Group 2 Insurance**

The supply by the Council of insurance derived from the Council's own block insurance policies are exempt of VAT.

## **Group 3 Postal Services**

The conveyance by Royal Mail of postal packets, and associated services, is VAT exempt. This includes the supply of currently valid postage stamps at face value; philately (collecting stamps) is subject to VAT. As the only universal service provider, this VAT exemption is restricted to Royal Mail only; other couriers' (e.g. TNT, UPS, FedEx etc.) charges are subject to VAT.

An exception to the exemption is certain business contracts between Royal Mail and large organisations for the collection and distribution of their mail and parcels at a bulk rate; such contracts are subject to VAT.

## **Group 4 Betting, Gaming, Dutiable Machine Games and Lotteries**

This Group exempts the placing of bets and the playing of any games of chance for a prize, as well as participation in lotteries.

## **Group 5 Finance**

The issue and transfer of money and securities (including stocks and shares, bonds, debentures etc.) is exempt of VAT. Credit or hire purchase arrangements are exempt, as is the operation of any current, deposit or savings account.

## **Group 6 Education**

The provision by an "eligible body", including Cambridgeshire County Council, of education or vocational training, and examinations related to that education/vocational training, is exempt of VAT. For VAT exemption purposes HMRC regard 'education' as meaning a course, class, or lesson in any subject ordinarily taught in a school or university.

### **Group 7      Health and Welfare**

Supplies of health services are VAT exempt when provided by a registered health professional, i.e., by someone who is enrolled in the appropriate statutory register such as dentists, nurses, midwives, medical practitioners, opticians etc.

Welfare services are subject to the same stipulation, that the person(s) providing the welfare are professionally registered. In many cases this is automatic because they are only permitted to provide the service when they have qualified. An example is childcare at a nursery or playgroup where the staff have to be professionally qualified before they are permitted to be employed to provide such childcare facilities.

### **Group 8      Burial and Cremation**

The disposal of the remains of the dead and the associated making of essential arrangements are VAT exempt (humans only; funerals for pets are subject to VAT).

Headstones, memorial plaques/vases/benches, planting memorial trees or bushes, and entries in books of remembrance are not considered essential and are therefore subject to VAT.

It is important to note that, while cremation and the return of the ashes in an urn or casket is VAT exempt in all circumstances, burial services supplied by a local authority is outside the scope of VAT.

### **Group 9      Trade Unions and Professional and Other Public Interest Bodies**

Membership and affiliation fees paid to trade unions and professional bodies are exempt of VAT. 'Professional bodies' are either a recognised professional qualification (e.g. in law, accountancy, various branches of medicine, architecture etc.) or trade associations (for example Local Government Association, British Medical Association, Society of Motor Manufacturers).

### **Group 10      Sport, Sports Competitions and Physical Education**

The entry fee to a competition where the entire sum of the entry fees is returned to the competitors as a prize(s) is exempt of VAT. Otherwise the entry fee to a competition is subject to VAT.

The supply by a non-profit making non-commercial body of sports and physical education facilities is VAT exempt. NOTE: VAT legislation specifies that local authorities are NOT a non-profit making sports body and are therefore ineligible for this VAT exemption. A Council may transfer leisure facilities to be operated by an independent non-profit making body, which would be eligible, but such outsourcing does involve difficulties (for an operator to be independent of the Council, the detailed operation and pricing structure of the leisure facilities must be outside the control of the Council Officers and Members.

### **Group 11      Works of Art etc.**

This is a specialist exemption which applies to disposal of works of art under limited circumstances, primarily for disposals to The National Gallery, British Museum etc. in lieu of the seller paying Capital Gains Tax, Inheritance Tax or Estate Duty.

### **Group 12      Fund-raising Events by Charities and Other Qualifying Bodies**

Income (i.e. admission charges, sale of brochures, sale of advertising space in the brochures, and sale of event memorabilia such as T-shirts) from fund-raising events by charities is VAT exempt.

**Group 13 Cultural Services etc.**

Income to a public body (defined here as a local authority or a government department) or to an eligible body (defined here as a non-profit making body) from admission charges to a museum, gallery, art exhibition, zoo or to a theatrical, musical or choreographic performance of a cultural nature, is VAT exempt.

However, the legislation excludes public bodies from applying this exemption where it would be likely to create distortions of competition such as to place a commercial enterprise carried on by a taxable person at a disadvantage. Public bodies are only eligible for this exemption if specifically instructed by HMRC that this is the case.

**Group 14 Supplies of Goods where Input Tax cannot be Recovered**

This is a legal technicality concerning purchases where VAT is irrecoverable.

**Group 15 Investment Gold**

Investment in gold is exempt of VAT.

## 6. VAT & Local Authorities

Local authorities and other similar bodies are given a special status by section 33 of the 1994 VATA. This section deals with the relationship between such bodies as far as the provision of goods and services are concerned.

### 6.1 Section 33 bodies

The bodies to which this section applies are:

- a local authority or a combined authority;
- a fire and rescue authority;
- a river purification board (Scotland) or a water development board (Scotland);
- an internal drainage board;
- a passenger transport authority or executive;
- a port health authority, or a port local authority and joint port local authority (Scotland);
- a police and crime commissioner, the Mayor's Office for Policing and Crime or the Receiver for the Metropolitan Police District; the Scottish Police Authority; the Police Service of Northern Ireland or the Northern Ireland Policing Board;
- a development corporation (M6New Towns Act 1981 or the M7New Towns (Scotland) Act 1968), a new town commission (M8New Towns Act (Northern Ireland) 1965) or the Commission for the New Towns;
- a general lighthouse authority;
- the British Broadcasting Corporation (BBC);
- a nominated news provider (section 280 of the Telecommunications Act 2003);
- any body specified for the purposes of this section by an order made by the Treasury.

## 6.2 Inter Authority Supplies

### **Goods**

The sale of goods between local authorities and other section 33 bodies is deemed to be a business transaction and should therefore **bear VAT at the appropriate rate** i.e. standard-rated, exempt or zero-rated.

### **Services**

Supplies of services which include a supply of goods should be treated as taxable at the appropriate rate.

Services supplied between local authorities must be treated as non-business where they are made under a statutory obligation.

Other services may only be treated as non-business where they are not in competition with the private sector.

Where an activity is carried out under a special legal regime applicable to the local authority, and a supply is made to a third party for a consideration (payment or other benefit) and the supply is in competition, either actually or potentially, with other suppliers of similar goods/services, then the effects of distortion of competition must be looked at. Such activities may be subject to VAT at the appropriate rate.

## 6.3 Intra Authority Supplies

Supplies of goods and services between departments within Cambridgeshire County Council **are not subject to VAT**. This includes supplies between the Council and LA maintained schools, and supplies between LA maintained schools.

## 6.4 County Council and Major Developments

It is vital that the Tax Team is consulted as early as possible when considering major developments. This is particularly important where income is likely to be generated, especially if that income is likely to be exempt from VAT as such VAT would impact on the Council's 5% partial exemption limit.

Major developments undertaken in conjunction with other organisations, both public sector (e.g. ICSs, police, probation, magistrates etc.), or private sector (commercial entities or the charity or voluntary sector), often have a significant VAT implication for the Council. Referring to such developments as 'partnerships' does not change this as it is still necessary to determine whether the Council is incurring expenditure – and if so whether VAT is recoverable – or receiving income – and if so what the VAT liability of the income is.

## 7. VAT and Cambridgeshire County Council

### 7.1 VAT on expenditure

The Council uses the ERP Gold system to procure goods and services:

- requisition orders for the amount excluding VAT should be raised and approved, creating a purchase order (PO);
- goods or services are receipted (GRN) on delivery, for the value excluding VAT;
- the Accounts Payable team carries out three-way reconciliation (purchase order and GRN to supplier invoice) to effect payment to the supplier.

There are some exceptions where ERP Gold requisition orders are not used, examples include:

- petty cash/imprest account purchases;
- non-commercial payment requests (e.g. grant payments);
- mileage expenses, travel claims and relocation expenses;
- GPC card purchases;
- purchases outside the UK.

VAT should only be recovered from HMRC where the Council is entitled to recover it, supported by relevant supporting documents i.e. valid supplier invoices.

## 7.2 VAT on Income

Generally, we should add VAT to invoices to all external customers (i.e. outside of Cambridgeshire County Council). External customers include any organisation or individual that is not part of CCC:

- other local authorities or public bodies;
- charities and voluntary organisations;
- all schools outside of Cambridgeshire (academy, maintained or private);
- academy schools within Cambridgeshire;
- private individuals or businesses.

We do not charge VAT on invoices to schools within CCC (i.e. all Cambridgeshire maintained schools – so this does not include academies, where VAT is charged) and internal services, because they are outside the scope of VAT.

When billing for services provided by the Council, VAT must be applied at the relevant rate regardless of whether or not VAT can be reclaimed by the recipient of the invoice. When raising an invoice in ERP Gold, the VAT amounts are automatically calculated by selecting an appropriate Product code. For more information on ERP Gold Customers and Suppliers guidance please see Our Development.

Where the Council makes non-invoiced supplies i.e. for cash (money), or debit and credit cards sales, VAT also needs to be accounted for at the appropriate rate. When income is received by the Council that has NOT been generated by a debtors invoice it is the responsibility of the person initially receiving the income to identify any potential liability for VAT.

## 7.3 Bad Debts

VAT can be reclaimed from HMRC in conjunction with a bad debt write off where:

- 6 months or more has elapsed since payment of invoice was due; and

- the bad debt relief VAT claim must be made within 4 ½ years of the originating supply.

VAT bad debt relief is a technical area, and is dealt with by the Accounts Receivables/Debt Team.

## 7.4 Petty Cash/Imprest Accounts And Employee Expenses

### 7.4.1 Expenses

Where a local authority accepts responsibility for the actual expenses incurred by an employee, enters them in its normal accounts and reimburses the employee for the precise amount incurred, the supply of goods and services to the employee may, in these circumstances, be regarded as a supply to the local authority. Any VAT incurred may be reclaimed subject to the production of invoices.

However, where a local authority pays a fixed or flat-rate allowance to an employee, any VAT that may be incurred on the employee's expenses cannot be refunded to the local authority irrespective of whether supporting invoices are produced.

To minimise the burden of Petty Cash administration, the Council utilises Government Procurement Cards (GPCs), guidance for which can be found on Camweb.

Details of expenses that may be claimed, information on how to claim, and VAT receipt requirements are included in the Council's Travel and Expenses policy.

### 7.4.2 Car mileage allowances

HMRC have agreed that where a local authority pays its employees a reasonable mileage allowance to cover the costs of road fuel they buy for journeys on official business, the appropriate VAT fraction may be reclaimed, provided that a record for each employee is kept showing:

- number of miles travelled on official journeys;
- the reimbursement made to the employee, and its basis of calculation;
- the VAT fraction of the reimbursement (dependent on the current rate of tax).

The cost of fuel is only one element of the mileage allowance, and only a fraction of the cost of fuel relates to VAT. As such there is no direct correlation to the amount of VAT shown on any individual fuel receipts.

Receipts for fuel purchased prior to business mileage claims should be attached to expense claim forms. This does not mean that each claim has to be supported by a fuel receipt, but that at the end of a given period, there should be sufficient receipts to support the total cost of business fuel against which VAT will be recovered by the Council.

Details of how to claim, and VAT receipt requirements are included in the Council's Travel and Expenses policy.

### 7.4.3 Removal expenses (as part of a relocation agreement)



If the Council has contractually agreed with an employee that it will reimburse that employee for removal costs incurred in relocation to the County Council, then the Council is entitled to reclaim the incurred VAT in proportion to the actual expenses incurred by the Council, provided that: the Council has a signed contract with the employee, which shows the agreed terms of reimbursement; the tax invoice of the original account is retained as support to the claim for input tax; and the Council's accounts show that the employee has been reimbursed for the relevant proportion of removal costs on which the Council has claimed VAT.

Further details, including VAT receipt requirements can be found in the Council's Relocation policy.

## 8. Tax Points (the date of supply)

### 8.1 Tax Point

The tax point is the time at which VAT is accounted for. It is the date at which a supplier must account for the output VAT on a supply of goods or services, by declaring it to HMRC on the VAT return covering the tax point date and paying the VAT over to HMRC. It is also the date at which input VAT may be recovered from HMRC by the purchaser, by declaring it to HMRC on the VAT return covering the tax point date. When changes are made to tax rates, the tax point is also vital to determine the correct rate to be applied.

In order to determine the tax point for any given supply, it is necessary to establish whether the supply is of goods or services, as slightly different rules apply.

### 8.2 Goods

The basic time of supply (the basic tax point) is the date when the goods are either removed by the customer or made available to the customer.

*However, if payment is received for the supply and/or a tax invoice is issued before the basic tax point, then a tax point (which overrides the basic tax point) is created by the earlier of these two events.*

*As a local authority, if a tax invoice is issued more than two months after the basic tax point (this is 14 days for non-local authorities), tax is due at the basic tax point, unless HMRC's prior agreement has been obtained.*

### 8.3 Discrete Services (separate/single events)

The date of completion of the service is the basic tax point e.g. the date of servicing of a washing machine, is the basic tax point and the same tax point rules apply as for goods.

Therefore, if an invoice is issued within two months of the basic tax point then the invoice date becomes the actual tax point.

#### 8.4 Continuous Services (including construction contracts)

If a supplier makes services available over a period (i.e. a continuous supply), for example the use of VAT help-line facilities, for which consideration (usually payment) is paid periodically or from time to time, a tax point is created by a payment or the issue of an invoice, whichever comes first.

#### 8.5 Supplies made through Vending Machines

HMRC allow the date that money is removed from the machine to be the tax point for the supply (i.e. for the VAT on income/receipts).

### 9. Invoices.....General information

#### 9.1 Obligation to provide a Tax Invoice

A registered taxable person must issue a tax invoice upon supply of standard rated goods and/or services to a registered person in the UK.

#### 9.2 Timing Of Issue Of Invoice

For normal businesses there is a requirement to issue an invoice within 14 days of the time when the supply is treated as taking place; however, for local authorities, there is an extension to two months. If the Council issues an invoice within this period the invoice date will be treated as the tax point.

#### 9.3 The Importance Of Tax Invoices

Tax invoices are essential evidence to support a claim for reclaim of **input tax**. The supplier must keep a copy invoice and the original must be retained by the recipient.

In the case of **online accounts receivable invoices** (i.e. invoices raised online by the Council to external customers) HMRC accept that hard copy invoices are not available and as long as hard copies can be made of original screen input, as required by HMRC, this is deemed to be satisfactory.

#### 9.4 Where A Tax Invoice Is Not Required

A tax invoice is not required where the tax charged on the supply is excluded from being reclaimed as input tax, or where the customer operates an approved self-billing arrangement e.g. school photographs.

#### 9.5 Documents That Are Not Tax Invoices

The following documents are not tax invoices:

- pro-forma invoices. These may show all the details required for a tax invoice, but should be clearly marked 'This is not a tax invoice';
- delivery notes and consignment notes. These are documents issued by the supplier where goods are removed before it is known a supply will take place

(e.g. 'goods on approval' or 'sale by return') or where the tax point is treated as taking place at the time an invoice is issued. Such documents may not be treated as evidence for reclaiming input tax from HMRC.

**If an invoice contains any of the following terms it cannot be used to reclaim VAT:**

**'Pro-Forma Invoice'**  
**'This is not a Tax Invoice'**  
**'Not an invoice for VAT'**

## 9.6 Types Of Invoice

There are three types of tax invoices: full, less detailed, and modified tax invoices.

### 9.6.1 Full

A full tax invoice applies in circumstances where the total charge for goods/services (inclusive of VAT) is greater than £250. A full tax invoice must contain the following information:

- an identifying number (i.e. an invoice number);
- the time of the supply (i.e. tax point);
- the date of issue of the document;
- the name, address and VAT registration number of the supplier;
- the name and address of the person to whom the goods are supplied;
- the type of supply (sale, hire purchase or similar transaction; loan; by way of exchange; hire, lease or rental; goods made from customer's materials; sale on commission; sale or return or similar terms; or any other type of supply which HMRC may specify at any time);
- the unit price;
- a description sufficient to identify the goods or services supplied;
- for each description, the quantity of the goods/extent of the services, the rate of tax, and amount payable (excluding tax) in £GBP;
- the gross amount payable (excluding tax) in £GBP;
- the rate of any cash discount offered;
- each rate of tax chargeable and the amount of tax chargeable at each rate in £GBP; and
- the total amount of tax chargeable in £GBP.

Where an invoice contains particulars of goods or services which are exempt or zero-rated in addition to taxable supplies, those goods or services must be distinguished on the invoice and must be totalled separately.

### 9.6.2 Less Detailed Invoices

These can be supplied where the consideration does not exceed £250 (including VAT). They need only to contain:

- the name, address and VAT registration of the retailer;
- the time of the supply (i.e. tax point);
- a description sufficient to identify the goods or services supplied;
- the unit price;
- the total amount payable including tax; and
- the rate of tax in force at the time of the supply.

The invoice must include only particulars of supplies subject to the same rate of tax and must not contain any reference to zero-rated or exempt supplies.

### 9.6.3 Modified Tax Invoices

**Provided the customer agrees**, an invoice can be issued showing the VAT inclusive value of each standard-rated supply (instead of the VAT exclusive value).

At the foot of the invoice, there must be shown separately:

- the total VAT inclusive value of standard-rated supplies;
- the total VAT payable on those supplies;
- the total value, excluding VAT, of those supplies;
- the total value of any zero-rated supplies included on the invoice; and
- the total value of any exempt supplies included on the invoice.

In all other respects the invoice should show the details required for a full VAT invoice.

## 9.7 Authenticated Receipts (construction industry only)

VAT regulations allow services, or services together with goods, supplied in the course of the construction, alteration, demolition, repair or maintenance of a building or a civil engineering work under a contract which provides for payments to be made periodically or from time to time, to issue an authenticated receipt instead of a full tax invoice. The required content of the document is the same as for a full tax invoice. The tax point for reclaiming VAT from HMRC is the date that the authenticated receipt is received.

It is the sole instance where VAT can be claimed at payment when no valid VAT invoice is to hand, i.e., in anticipation of the supplier issuing an authenticated receipt. It is necessary to ensure in all cases that the supplier does indeed issue an authenticated receipt, within 30 days of payment, otherwise the VAT claim is invalidated. The result of an invalidated VAT claim is that the Council becomes liable to repay the VAT to HMRC, as well as interest and possible penalties.

The Council does not have the systems required to monitor whether the authenticated receipts necessary to validate VAT reclaims are received. As such, whilst technically allowable by HMRC, payment to suppliers on this basis would be a financial risk to the Council. Therefore, payments should not be made pending a proper tax invoice.

## 10. Anti-Fraud Measures

### 10.1 Domestic reverse charge procedure

The VAT domestic reverse charge procedure is an anti-fraud measure designed to counter criminal attacks on the UK VAT system by means of sophisticated fraud. It was introduced to prevent fraud where a supplier charges a customer potentially

large sums on the sale and resale of small, unidentifiable but high value items, for example computer chips and mobile phones, whereafter the customer claims the VAT while the supplier goes missing or bust never having paid the VAT over to HMRC.

To avoid this situation, normal VAT procedures are suspended in favour of “Reverse Charge”, where the supplier charges no VAT to the customer; instead; the customer pays the VAT due upon the purchase direct to HMRC. Only then is the customer entitled to claim that VAT back from HMRC.

The procedure has been expanded by HMRC over the years to cover additional goods and supplies. VAT Notice 735 (Domestic Reverse Charges) explains the VAT reverse charge procedure, and specifies the goods and services supplied and purchased to which the procedure applies.

Below is a brief summary of the specified goods and services covered by this procedure. However, there are a number of detailed exclusions which cannot be included here; please refer to the VAT notice and the Tax Team for further advice.

#### 10.1.1 Goods

The specified goods that the reverse charge applies to are:

- mobile phones (from 1 June 2007);
- computer chips (from 1 June 2007);
- wholesale gas (from 1 July 2014);
- wholesale electricity (from 1 July 2014).

#### 10.1.2 Services

The specified services that the reverse charge applies to are:

- emission allowances (from 1 November 2010; amended 1 May 2021);
- wholesale telecommunications (from 1 February 2016);
- renewable energy certificates (from 14 June 2019);
- construction services (from 1 March 2021).

The VAT domestic reverse charge must be used for most supplies of building and construction services. It applies to VAT standard- and reduced-rate services, for UK VAT registered businesses who are covered by the Construction Industry Scheme (CIS).