



*'Engaging learners to enhance their life opportunities and outcomes'*

## VAT POLICY

### APPROVED

Signature of CEO	
Date:	
Signature of Chair of Board:	
Date:	
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**CONTENTS**

**1 BACKGROUND AND RATIONALE ..... 3**

**2 INDUCTION OF A NEW SCHOOL ..... 3**

**3 CHARGING OUTPUT VAT ON INCOME..... 4**

**4 SCHOOL TRIPS ..... 4**

**5 PAYING AND RECLAIMING VAT ON EXPENDITURE..... 4**

**6 BASIS OF APPORTIONMENT OF INPUT VAT RECLAIMED ON NON-BUSINESS AND  
BUSINESS ACTIVITIES..... 5**

**7 CHARITABLE STATUS ..... 5**

**8 STAFF ACTING AS AGENTS WHEN MAKING PURCHASES ..... 6**

**9 ACCOUNTING FOR VAT..... 6**

**APPENDIX 1 ..... 7**

## **1 BACKGROUND AND RATIONALE**

- 1.1 The purpose of this policy and associated procedures is to ensure that the Believe Engage Succeed Trust (BEST or "the Trust") maintains and develops systems of financial control which conform to the requirements both of propriety and of good financial management. It is essential that these systems operate properly to meet the requirements of the Trust's Funding Agreement with the Department for Education (DfE).
- 1.2 The policy covers all aspects of VAT in relation to the Trust, including the ways these are impacted by its charitable status. This also includes the way costs are classified or apportioned as business / non-business use.
- 1.3 This policy relates to the Trust and all of its academies. Adherence to the principles and procedures contained in this policy is mandatory for all staff.
- 1.4 This policy is designed to be consistent with:
- ESFA Financial Handbook
  - Trust Articles of Association / Constitution
  - Master and Supplemental Funding Agreements
  - HM Treasury's "Regularity, Propriety and Value for Money".
- 1.5 This policy is an appendix to the BEST Finance Policy.
- 1.6 The requirement for VAT registration is determined by reference to the nature of and total value of goods and services provided by the Trust's business and non-business activities.
- 1.7 The Trust acknowledges that VAT legislation is a complex area requiring careful consideration and that errors can potentially lead to charges of interest and penalties. Detailed information regarding the rules for charging and reclaiming VAT can be obtained from the HMRC website [www.hmrc.gov.uk/vat/index.htm](http://www.hmrc.gov.uk/vat/index.htm) or via the HMRC VAT helpline 0300 200 3701.
- 1.8 The Trust's auditors and/or finance service providers may also be contacted for guidance and answers to general and specific queries.

## **2 INDUCTION OF A NEW SCHOOL**

- 2.1 Registration for VAT purposes is required if the turnover of taxable supplies (i.e. business activities; standard, reduced and zero rated) exceeds a limit determined by HMRC within any twelve month rolling period (set at £85,000 September 2019).
- 2.2 **The Trust is not currently registered for VAT.**
- 2.3 The Trust will carry out a monthly check of the total taxable supplies to ensure that turnover limits are not exceeded.

- 2.4 Where turnover limits are exceeded, the Trust will register for VAT and account for VAT from the date of the requirement to register, in accordance with VAT legislation, even if the Trust has not received a registration number and certificate from HMRC. In such circumstances, the Trust will then review its responsibilities upon receipt of its registration number.
- 2.5 The Trust has the option to register voluntarily for VAT if taxable supplies are below the set turnover limit. The Trust will then account for VAT from the date of application, in accordance with VAT legislation.

### **3 CHARGING OUTPUT VAT ON INCOME**

- 3.1 The Trust is **not** VAT registered and, therefore, VAT must not be added to invoices raised relating to services provided by the Trust or any of the academies within it.

### **4 SCHOOL TRIPS**

- 4.1 The Trust will consider each proposed school trip and only undertake those that are determined to be for educational purposes, designed to supplement the curriculum. Where the Trust determines that a school trip is not for educational purposes the trip will be deemed a taxable business supply and not claim back any VAT.

### **5 PAYING AND RECLAIMING VAT ON EXPENDITURE**

- 5.1 When charged VAT, it will be paid in full by the Trust.
- 5.2 The Trust is able to recover VAT in relation to costs (inputs) attributable to non-business activities, even though it is not VAT registered.
- 5.3 Input VAT cannot be recovered for business activities. Input VAT that relates specifically to business activities will be disallowed in full. Business activities are those activities designed to generate income that are not part of, or closely related to, the free provision of education by the school. Supplies associated with business activities will either be taxable or exempt.
- 5.4 Where the Trust incurs expenses related to both business and non-business activity then an agreed apportionment methodology will be applied to determine the proportion of input VAT that will be disallowed. See Section 6 below.
- 5.5 The Trust will record within its Financial Management System the types of income and costs being incurred and whether these are non-business, taxable business or exempt business supplies.
- 5.6 A VAT126 / S33B claim will be submitted to HMRC on a monthly basis in accordance with the following:

- claims will not include invoices dated earlier than the date of conversion
- VAT returns will not include invoices dated after the period covered by the return
- the Trust has determined that both non-business and business activities are being undertaken. The input tax (costs) relating to these activities will not be fully recoverable. As such, the Trust will need to calculate how much input tax can be reclaimed using a fair and reasonable apportionment method.

## **6 BASIS OF APPORTIONMENT OF INPUT VAT RECLAIMED ON NON-BUSINESS AND BUSINESS ACTIVITIES**

- 6.1 Where costs are incurred for both business and non-business activities, the VAT will be apportioned on a fair and reasonable basis.
- 6.2 The Trust is free to choose a suitable approach to apportionment, which is simple to understand and operate and is consistently applied. As the costs requiring apportionment will normally relate to specific academies, the Trust uses a separate apportionment basis for each academy. The apportionment used for each academy is set out in Appendix 1.
- 6.3 The business activity recorded in the statutory accounts to the 31st of August of the preceding year will be used to calculate the apportionment rate to be applied from the following January. For example, the final accounts from 31st August 2019 are used to calculate the apportionment from the 1st January 2020.

## **7 CHARITABLE STATUS**

- 7.1 As a charity, the Trust qualifies for certain zero rating reliefs as described in the VAT guidance for charities and not-for-profit organisations issued by HMRC. Where conditions are met, the Trust will provide suppliers with a certificate of eligibility in order to qualify for the relief.

Examples of the types of supply that **may** qualify for relief are:

- the construction of new buildings intended solely for use for a relevant charitable purpose
- aids and facilities for the disabled
- approved alteration to listed buildings used for charitable purposes.

- 7.2 Income from fundraising events may be classed as exempt supplies where certain conditions apply and the number of the same type of events held at the same location do not exceed 15 in any year. Events with gross takings of less than £1,000 do not count towards the 15 event limit. The Trust will regularly monitor the number of events taking place within each year to ensure that exemption remains appropriate - <https://www.gov.uk/government/publications/charity-fundraising-events-exemptions/fundraising-events-exemption-for-charities-and-other-qualifying-bodies>

## **8 STAFF ACTING AS AGENTS WHEN MAKING PURCHASES**

- 8.1 If a purchase is made by a member of staff acting as an agent on behalf of the Trust, prior approval must be obtained before the purchase is made. Any purchases made by staff for which reimbursement is required must go through the appropriate authorisation channels before any reimbursement payment is made to staff. All supporting documentation will be filed with the relevant invoice.

## **9 ACCOUNTING FOR VAT**

- 9.1 The following documentation should be held as evidence to support a VAT claim:
- VAT PSF system Report
  - hard copy of original VAT 126 report before any adjustments are made
  - valid VAT invoices
  - petty cash claim forms and associated receipts and paperwork
  - details of income received including sales invoices and listing of direct receipts for which sales invoices have not been raised (the date of receipt will be the tax point)
  - details of any apportionment calculations
  - copy of any adjustments made (on PSF a copy of the journal will suffice)
  - hard copy of signed submitted VAT126 report after adjustments have been made.

## APPENDIX 1

### **The Albany Apportionment Basis**

The Trust has reviewed the costs incurred at The Albany and has determined that, currently, VAT does not require apportionment as only non-business income is received.

### **Riverwalk School Apportionment Basis**

The Trust has reviewed the costs incurred at Riverwalk School and has determined that, currently, VAT requiring apportionment relates only to non-business income and letting income.

Where specific amounts of input VAT are incurred in generating both the non-business income and the letting income of the Trust then the percentage of that input VAT that will be disallowed shall be calculated using the following formula:

$$\frac{\text{Letting Income}}{\text{Letting Income} + \text{Non-Business Income}}$$

Apportionment will be applied to the electricity utility bills for Riverwalk School. This approach will be reviewed annually in the light of any changes to the business activity of the school. Further, if the school incurs any one-off costs relating to the specific premises from which the letting income is generated, then the appropriate apportionment of any VAT incurred will be determined at that time.

### **Warren School Apportionment Basis**

The Trust has reviewed the costs incurred at Warren School and has determined that, currently, VAT requiring apportionment relates only to non-business income and letting income.

Where specific amounts of input VAT are incurred in generating both the non-business income and the letting income of the Trust then the percentage of that input VAT that will be disallowed shall be calculated using the following formula:

$$\frac{\text{Letting Income}}{\text{Letting Income} + \text{Non-Business Income}}$$

Apportionment will be applied to the electricity, gas and water utility bills and swimming pool supplies for Warren School. This approach will be reviewed annually in the light of any changes to the business activity of the school. Further, if the school incurs any one-off costs relating to the specific premises from which the letting income is generated, then the appropriate apportionment of any VAT incurred will be determined at that time.

