

Section 10: Tax

10. Why is this area important?

The head teacher is responsible for ensuring that the school complies with Value Added Tax (VAT) and other tax regulations. VAT is a complicated area and the following controls merely set out the minimum framework. The LA's guidance on VAT should be consulted for detailed interpretation. Copies are available on EGfL. The Construction Industry Scheme (CIS), no longer applies to schools.

10.1. Rules & regulations

Awareness of tax regulations

The head teacher should ensure that all relevant finance and administrative staff are aware of VAT and Income Tax.

- LBE schools are treated as part of the Council for VAT purposes, and as such, are included in Ealing's registration. Ealing Council is registered as it makes taxable supplies and is subject to the same rules as any other trader on its business activities.
 - Ealing's VAT registration number is **GB 226 6700 70**.
- The provision of education by LA schools is termed non-business where it is provided free of charge or for a fee less than cost. Goods and services supplied to them by other Council departments are not subject to VAT.
- For VAT purposes, Foundation schools are generally treated in the same way as LA schools. HM Revenues and Customs (HMRC) accept that the Council may recover any VAT it incurs on purchases made in respect of Foundation schools. This applies even where the governors have donated funding to the LA. VAT may not be recovered by the LA on capital works where the funding is derived from a specific DFE grant. These grants are always given inclusive of VAT.
- HMRC do not accept "**mistakes**" as a reasonable excuse for the incorrect treatment of VAT, and are empowered to impose financial penalties. Penalties incurred by individual schools will be generally charged to those school budgets.

10.2. Payment of VAT invoices

PAYMENT ON AUTHENTIC VAT INVOICES

School procedures should stipulate that only proper VAT invoices are paid, as the school will not be reimbursed in the absence of such documentation.

- Certifying officers should always make sure before authorising payment that valid tax invoice is attached and a supply of goods or services has been received. Only original or certified copies can be used to support the VAT claim, photocopies or faxes will not normally be acceptable. Internal controls should be in place to ensure that payment has not already been made as it will result in a duplicate payment, which will

mean that input tax would have been claimed twice. This can normally also be picked up by close monitoring of the budget.

- Invoices must not be altered under any circumstances. If there is a need for credit, a credit note must be obtained from the supplier. This will not only adjust the net amount for the goods or services, but also account correctly for the VAT liability.

10.3. Accountability of VAT

ACCOUNTABILITY OF VAT

School procedures should set out how VAT on business activities, school trips and other taxable activities should be accounted for, both within the delegated budget and in voluntary funds.

- It is the head teacher's responsibility to ensure that both the governors and staff involved in school finances adhere to rules and regulations relating to accounting for VAT on income and recovering VAT on expenditure.
- When schools make payments via their local cheque account, it is very important that all appropriate records are maintained and the VAT element is clearly shown in their termly finance returns submitted to the LA. Where schools use the computer accounting software such as FMS, the VAT element will be shown separately. It is in the school's interest that these returns are submitted on time, as any delay will mean that the school will not benefit from securing a cash flow advantage.
- It is the responsibility of the school to ensure that the records clearly show how the purchase was made. It should also be noted that should a private fund purchase items direct using this scheme, HMRC will make an assessment to recover reclaimed input VAT, and make an interest charge **and financial penalties**. VAT incurred on purchases made through the private fund cannot be recovered unless the private fund is separately VAT registered. If the value of the taxable supplies made by the private fund exceeds the annual VAT registration limit (with effect **01/04/16 £83,000**, this amount is reviewed annually), then it must register for VAT. (Refer to Standard L2 Voluntary Funds - Benefits of Registering for Charitable Status).
- Donations for specific school purchases can be made to the school's local cheque account from the Voluntary Fund. The purchase can then be made through the local cheque account and the VAT reclaimed.
- Most income received by schools is classified as non-business and therefore carries no VAT liability. There are, however, a number of sources of income where VAT needs to be accounted for e.g. private telephone calls, private photocopying, and sale of certain goods.