

# VAT GUIDE

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# VAT Guide

## 1.0 Introduction

### 1.1 Purpose of this guide

This guide is intended to give University staff an overview and guidance on the Value Added Tax (VAT) implications of University activities to ensure the University meets the requirement to produce accurate and timely value added tax returns to HM Revenue and Customs (HMRC). This section explains how VAT affects the University and the later sections explain the VAT treatment of specific transactions.

This guide is intended for reference purposes. If you need any further information or guidance please do contact Carol Seward on extension 3775.

### 1.2 What is VAT

VAT is a European tax, introduced in the UK when the UK joined the Common Market in 1973. It is founded in European Community Directives, as implemented in UK national law. The current legislation governing VAT is the VAT Act 1994.

A transaction is within the scope of UK VAT if the following conditions are met:

- It is a supply of goods or services, and
- It takes place in the UK (see Place of Supply rules for more information,) and
- It is made by a taxable person, and
- It is made in the course of furtherance of any business carried on by that person.

All goods and services are liable to VAT at the standard rate unless they are specifically excluded from that charged elsewhere in the law, for example, by way of VAT exemption, or reduced-rating and zero-rating. There are three main rates of VAT in the UK:

- Standard rate 20% (pre 4/1/2011 17.5%)
- Reduced rate 5%
- Zero rate 0%

Certain supplies are exempt from VAT. This means that no VAT is chargeable.

There are differences between zero rated and exempt supplies even though both categories result in no VAT being applied to the supply. Zero rating applies a VAT of 0% and this constitutes a taxable supply. As a result input VAT in relation to directly related expenditure can be reclaimed. Exempt supplies however, are not taxable supplies and VAT incurred on related expenditure cannot be recovered. The VAT is therefore an irrecoverable cost.

## 1.3 Responsibilities & VAT

The University is required to submit quarterly VAT returns to HMRC. The completion of these returns is the responsibility of Financial Services. Members of staff across the University are responsible for ensuring that transactions are recorded using the correct tax codes to ensure VAT is correctly accounted for on income and expenditure.

## 1.4 General information

The University is registered for VAT and is required to account for VAT on the income it receives for supplies it makes. Universities generate a whole range of sales including education, research and commercial activities. The VAT rules vary according to what is being provided and where.

The primary purpose of the University is providing education. Education supplied by the University is an exempt supply, which means no VAT is charged to any recipients of education irrespective of whether they are students or companies.

The effect of this is that the University cannot recover the VAT incurred on the majority of its expenditure on goods and services. The full cost including VAT will therefore be a charged to cost centres.

The University can recover a small percentage of the VAT incurred on its overheads through its VAT Partial Exemption Scheme, but the income from this accrues centrally and is included in the University's central income. Certain supplies such as staff catering, consultancy, and lettings are standard rated. The VAT that is incurred on the purchase of goods and services directly related to these activities can be recovered from HMRC.

## 1.5 VAT registration number

The University is registered for VAT under VAT registration GB 637 1509 40.

## 1.6 The University's status & VAT

### Eligible body status

The University is an eligible body for VAT purposes under Note 1 (b) to Group 6 (Education) of the VAT Act 1994.

As a result of its eligible status, **supplies of education by the University are exempt from VAT.**

### Charitable status

The University is an exempt charity and has charitable status for VAT purposes. Whilst there is no general exemption for Charities from the VAT system it is entitled to receive certain supplies exclusive of, or at a lower rate of VAT, e.g. advertising services, certain construction services, supplies of medical and scientific goods and fuel and power subject to meeting certain conditions.

## 1.7 Terminology

**Supplies** – goods, the exclusive ownership of which passes from one person to another, or services for which payment, in money or in kind, is made

**Taxable supplies** – supplies which are liable to VAT at the standard-rate of 20%, the zero rate of 0%, or the reduced rate of 5%

**Input tax** – VAT charged on the purchase of taxable supplies

**Output tax** – VAT charged on taxable supplies of goods and services

**Exempt supply** – a supply of goods/services on which VAT is not charged e.g. a supply of education

**Outside the scope of VAT** – VAT is not charged. (In cases where the sales are outside the scope of VAT it is usually the case that there has been no supply of goods or services)

**Net figure** – the VAT exclusive purchase or sales price

**Gross figure** – the VAT inclusive purchase or sales price

**HMRC** – HM Revenue and Customs administer VAT, import VAT and Customs duties

## **2.0 Overview of VAT on University income**

### **2.1 University VAT codes for income**

The relevant Agresso codes for VAT on income are:

S3	Standard rated (taxable income e.g. consultancy)	20.0%
SX	Exempt sales (includes student fee income)	0%
SZ	Zero rated (e.g. certain foods)	0%
SO	Outside the scope (certain sales to non EU clients)	0%

### **2.2 Introduction to VAT on income**

Every time an invoice request is completed a VAT code is to be entered for all income. It is critical to use the correct VAT code, as this code is used to determine how much sales VAT the University has to pay and the proportion of partial exemption recovery VAT we can reclaim. Whether VAT is added depends on what the supply (sale) is for.

### **2.3 Time of raising a sales invoice**

VAT on sales invoices must be accounted for to HMRC in the correct period. To ensure compliance, sales invoices must normally be raised within a maximum of 14 days from the date of supply of the goods or services.

Where supplies of services are on-going, then sales invoices should normally be raised periodically in accordance with the agreement with the customer.

### **2.4 Education fee rules for VAT exemption**

The supply of education by the University is exempt from VAT by virtue of it being an eligible body.

Education is not defined in legislation. HMRC regard education as meaning a course, class or lesson of instruction or study in any subject, regardless of where and when it takes place. Education includes lectures, educational seminars, conferences and symposia together with sporting and recreational courses. It also includes distance learning and associated materials. Any separate charge for registration is part of the supply of education.

Education does not include admission to events such as plays, concerts, sports meetings and exhibitions which would be subject to VAT at the standard rate.

## 2.5 Education and closely related goods/services

In addition to the supplies of education that the University makes and which are exempt from VAT, closely related supplies can be similarly exempt from VAT.

In general terms closely related refers only to goods and services that are for the direct use of the student **and** necessary for delivering the education to that person.

However, an eligible body such as the University may treat as closely related any accommodation, catering, transport and field trips that it provides.

Goods and services that are **not** closely related to supplies of education include the following:

- Supplies to staff (including tutors on summer schools) and to other non-students
- Sales of goods from University shops and bars
- Sales of goods not needed for regular use in class
- Separately charged laundry and other personal services
- Sale of sports clothing
- Administration and management services
- Commission for allowing sales by outside organisations at an educational establishment
- Admission charges for example, admission to plays, concerts, dances, sporting venues and exhibitions

If the University contracts to provide closely related goods or services to another eligible body, rather than direct to its own students these supplies are also exempt but only if the body receiving them supplies education in the course or furtherance of business, i.e. it charges a fee.

## 2.6 Closely related goods and services sold to the pupils of other eligible bodies

If the eligible body is ...	Then it ...
an educational institution such as a school, college or university	should not charge VAT on the closely related goods and services it provides direct to the pupils, students and trainees of other schools, colleges or universities that are also eligible bodies

## 2.7 Place of supply rules for overseas income

Having determined that a supply of goods or services has taken place, the second condition to be satisfied if the transaction is to fall within the scope of UK VAT is that the supply takes place within the UK. Place of supply VAT rules are different for goods and for services.

## **Supply of goods**

The supply of goods is deemed to be supplied where the goods are located at the time when dispatch or transport of the goods to the customer begins. Goods supplied from the UK, the place of supply is the UK.

### **To EU customers**

Supplies of goods to a customer registered for VAT in another EU country can be zero-rated provided certain conditions are met. First of all we will need to obtain evidence from the customer that they are in business. In this respect we will need to obtain their VAT number and country of VAT registration. The customer then accounts for VAT at the appropriate rate on the goods in the EU country of destination. If the conditions cannot be met, VAT must be charged in the country of origin at the rate applicable to the goods in that country. The University is required to check that the customer's VAT number given complies with the expected format for the country concerned. This number will need to be included on the invoice to the customer.

VAT must be charged on supplies of goods to non-registered customers in other EU countries. Where, however, the University is also responsible for the delivery of the goods, once the value of such 'distance' sales to any particular EU country exceeds an annual threshold set by that country, the University is automatically liable to register for VAT in that other country. VAT on any further sales is then due in the EU country of destination.

For supplies of goods that would normally be zero rated or exempt in the UK, no VAT will be charged.

For supplies of goods that would normally be subject to UK VAT if made in the UK, the supply can be zero-rated as a movement of goods from the UK to an EU country.

If the customer does not give the required evidence to show they are in business for VAT purposes the supplies will be subject to VAT at the UK rates.

### **Outside of the European Union**

VAT is a tax charged on goods used in the EU, so if goods are exported outside the EU, VAT isn't charged. You can zero-rate the sale subject to holding the appropriate export evidence and goods leaving the UK within the relevant time limits (normally 3 months).

### **Evidence required**

You can zero-rate a sale provided you get and keep evidence of the dispatch/export. Detailed evidence required to support proof of dispatch/export is required to be retained.

## **2.8 Supply of services**

### **The General Rule**

Under the general rule, the VAT rate to charge depends on whether the services are supplied to another business – a Business to Business supply (B2B) – or to a private customer – a Business to Consumer supply (B2C)

#### **Business to Business supply (B2B)**

The general rule for B2B supplies is that the place of supply is where the customer belongs. If this is outside the UK, the supply is outside the scope of UK VAT.

If the customer is registered for VAT in the EU you must obtain and check the customer's VAT registration number as evidence that they are in business. All sales of services to VAT registered customers in other EU countries must be identified for reporting to HMRC these are reverse charges.

If the customer is outside the EU there is no requirement to obtain a VAT number.

#### **Business to Consumer supplies (B2C)**

The general rule for B2C supplies is that the place of supply is where the supplier belongs. Supplies made by the University to consumers are subject to UK VAT at the appropriate UK rate.

### **Recovery of VAT**

Where a service is supplied to an overseas business that is outside the scope of UK VAT but would have been subject to VAT if supplied to a UK business, any VAT incurred to provide the service is fully recoverable. The supply is deemed to be outside the scope of VAT (with credit).

If there is no supply of a service and you are merely receiving a grant from an overseas body to fund research, then the receipt of income is outside the scope of VAT and any VAT incurred is an expense to the grant.

## 3.0 Further specific VAT information

### 3.1 Accommodation

Supplies of accommodation to the University's own students are VAT exempt.

The supply of accommodation and catering to students is taxable in principle, but can be exempted when it is closely related to a supply of education made by the University to its students. "Student" covers all individuals that the University charges a fee for receiving teaching for whatever period of time and therefore including students attending short courses, conferences and seminars.

On the above basis, supplies of accommodation will be exempt when supplied to students of the University, any other UK University, overseas universities and commercial providers of tuition in English as a Foreign Language (EFL) (both of which are eligible bodies for UK VAT purposes), where the student is attending an educational course supplied by any eligible body.

#### **Accommodation for an educational conference**

The University can treat income from the provision of accommodation and facilities as exempt when the customer is an "eligible body" (i.e. an educational institution, a charity, a local authority, a government department, or an EFL school). To qualify, the goods and services must be used directly by persons receiving a supply of education from the eligible body and the client must charge the delegates for attendance at the conference.

VAT is due when accommodation is provided to University staff, visiting lecturers and the general public. The exception to this would be where the person lets the accommodation for a continuous period of more than 28 days in which case, VAT will only be due on the first 28 days and then the accommodation element will be treated as exempt from day 29 onwards and vat will also remain due on any element of the charge related to other services e.g. meals or drinks.

### 3.2 Advertising

#### **Zero rate relief**

Where the University, a charity, places adverts which communicate to the general public they are zero-rated for VAT purposes **providing that they are on a third party's time and space and are aimed at the general public**. The relief covers all types of advertisements on any subject, including staff recruitment. Zero rating is available for advertising in all the conventional advertising media such as television, cinema, billboards, and the sides of vehicles, newspapers and printed publications. Zero rating is also available for adverts on third party websites, internet based advertising.

## **Design or production of advertising**

Provided it is intended that the advertisement will be placed in purchased or donated advertising time or space, the supply of **design or production of an advert** will qualify for relief. This includes the design of a poster or the filming or recording of an advertisement to be broadcast.

## **Design or production of prospectus**

The zero-rating for 'charity advertising' will not apply to the production of a prospectus as the services received by the University will not be placed on someone else's time or space.

## **ePORs**

When raising a requisition for advertising or design and production of advertising which qualifies for zero rating please remember to ask for a VAT exemption certification which will trigger the issue of a zero rate **VAT certificate** to the requisitioner by email.

## **Exclusions from zero rate relief**

The following are **not eligible** for zero rate relief:

- Marketing and advertising addressed to selected individuals e.g. direct mail and telesales
- Anything on University's own Internet website
- Advertisement on University's own greeting cards
- Commemorative items whether or not they bear the University's logo, for example, pens and adult clothing
- Exhibition stands and space
- Banners on the University premises

## **3.3 Books and publications**

Books, brochures, pamphlets and leaflets are subject to zero rate VAT unless they include CDs or any other electronic element in which case part of the charge for the book will be subject to VAT.

E-books are subject to standard rate VAT.

## **3.4 Buildings**

The construction of buildings and certain works to buildings intended to be used by a charity solely for non-business purposes or as a village hall or similar, can be zero-rated subject to certain criteria being met.

In this respect education is regarded for VAT purposes as a business activity and hence this potential relief is limited to buildings which are primarily to be utilised for publicly funded research (to qualify 95% would need to be used for publicly funded research).

If it is not possible to obtain relief on an entire building it is possible to seek relief on a part of a building that is to be used over 95% of the time for publicly funded research purposes. To qualify the part must be an enclosed room or an entire floor of a building an apportionment can then be calculated for calculation of relief.

Fees of architects, quantity surveyors etc. will be subject to VAT irrespective of the fact that they are in relation to a building that qualifies for relief unless they are incorporated in a charge by a construction company as part of a design and build contract.

Buildings constructed for relevant residential purposes will also qualify for zero rate relief. HMRC accept that 95% use for relevant residential purposes will qualify.

### **3.5 Car parking**

The supply of car parking is subject to standard rate VAT. Charges for car parking to students are treated as exempt from VAT following issue of a letter from HMRC to Higher Education Institutions advising them that parking for students should be exempt as closely related to education.

### **3.6 Closely related supplies**

Supplies by the University and other eligible bodies which are deemed to be closely related to the supply of education can be treated as exempt from VAT.

In general terms, closely related refers only to goods and services that are:

- for the direct use of the pupil, student or trainee; and
- necessary for delivering the education to that person

However, an eligible body should treat the following charges to students as closely related to the provision of education and therefore exempt from VAT (SX):

- accommodation
- catering
- transport
- school trips
- field trips

### **3.7 Conferences**

#### **Educational conferences organised solely by the University**

Where the University charges for a conference, lecture, talk or symposium it runs and delivers these charges are treated VAT exempt as it represents a supply of education.

Supplies of accommodation, catering and other facilities to those attending the conference are classed as closely related to the supply of education and therefore also exempt from VAT.

### **Educational conferences organised solely by outside bodies**

VAT will be due on charges for educational conferences held at the University where the University is simply charging an external organisation which is not an eligible body for accommodation, catering and administrative support etc.

Room hire would generally be exempt from VAT although separate charges for audio visual or projection equipment or similar would be subject to VAT. Charges for room hire will also be subject to VAT where the room is used for the supply of catering.

### **Outside body is an eligible body**

When the University acts as the venue for a conference organised solely by an outside body, the provision of room hire is in principle exempt from VAT and the provision of accommodation and catering is standard-rated. However, if the client is an 'eligible body' (e.g. educational institutions/non-profit making organisations) and it makes a supply of exempt education, then all supplies can be exempted that are for the direct use of the delegates.

This exemption will extend to delegate accommodation and catering but not to accommodation/facilities that are provided to the staff or guests of the outside body, or guests of the delegates.

## **3.8 Donations**

Donations where there are "no strings attached" to the donation are treated as outside the scope of VAT (tax code SO).

Were the University to display the donor's logo on the University's website, marketing material or programmes in recognition of the contribution this would render the income subject to VAT. Similarly, were the University to allow the sponsor to use the University's name or logo or restrict activities in return for the donation then this should be treated as sponsorship and would be subject to VAT (S3)

## **3.9 Education and 'closely related' goods/services**

The supply of education by the University is VAT exempt. Education in this context means a course, class or lesson of instruction or study, in any subject, whether or not that subject is normally taught in schools, colleges or universities and regardless of where and when it takes place.

Education includes lectures, educational seminars, and conferences, together with sporting and recreational courses. It also includes the

provision of distance teaching and associated material if the student is subject to assessment by the University.

Separate charges for registration, examination fees and examination services are part of the provision of education and are also VAT exempt.

In addition to the supplies of education that the University makes and which are exempt from VAT, 'closely related' supplies can be similarly exempt from VAT.

Services qualifying to be treated as 'closely related' include the provision of accommodation, course materials, catering and field trips.

'Closely related' supplies made by the University are only exempt if: they are for the direct use of a student; and they are necessary for delivering education to that person. The charge would remain exempt if the student is registered with another University or eligible body.

However, if the University contracts to provide closely related goods or services to another eligible body, rather than direct to its own students, these supplies are exempt only if the body receiving them supplies education in the course or furtherance of business, i.e. it charges a fee.

Education delivered by the University to all customers is exempt from VAT irrespective of whether the customer is a registered student of the University. The exception to this would be where the University is providing educational input to its client who is then delivering courses or training to their client. Unless the University is subcontracted to carry out the entire service, the University will have to charge VAT on its services.

### **3.10 Electronic & distance learning materials**

Income from the sale of CDs, memory sticks and similar materials is subject to standard rate VAT (S3) unless these items are sold to students and are necessary for the delivery of education to that student. If necessary for the delivery of education to that student this income would be exempt from VAT.

Income from the sale of distance learning material supplied by the University will be exempt from VAT unless there is no tutor involvement, no marking of work submitted by the student or qualification achieved on the successful completion of the course. VAT would be due if this were not the case.

### **3.11 Eligible body**

Broadly speaking, an 'eligible body' within the meaning of the 1994 VAT Act is any organisation which is precluded from distributing any profits it makes. The definition of an eligible body includes schools, universities, colleges, local authorities, government departments, health authorities, charities and certain un-incorporated associations.

The bodies that are eligible to exempt supplies of education are listed in Note 1 to Group 6 as follows.

- All state and independent schools
- UK Universities and Colleges
- Further and Higher Education institutions
- Public bodies including local authorities, government departments, health authorities, NHS trusts and other bodies acting under any enactment for public purposes (and not for its own profit) to perform functions similar to those of a government department or local authority.
- Non-profit making bodies including charities, which are precluded from distributing and do not distribute any profits they make, and apply any such profits to the continuance or improvement of supplies of exempt education.
- Bodies that provide teaching of English as a foreign language

### **3.12 Errors on purchase and sales invoices**

If a supplier sends an invoice on which the VAT is incorrectly calculated, the VAT should not be altered, as the University cannot prove to HMRC that the supplier has also corrected it. The supplier should cancel the wrong invoice and issue a replacement.

Where the University has cause to reduce or cancel a sales invoice, which was subject to VAT, then a credit note shall be produced and sent to the customer, along with any replacement sales invoice.

### **3.13 Field and student trips**

If the University charges students for a field trip or a visit to an off-campus location as part of the educational content of the course, then any fees for the trip are exempt from VAT as they qualify as closely related to the supply of education.

### **3.14 Fuel and power**

The University uses fuel and power for relevant residential purposes (i.e. for student accommodation) and also for relevant charitable purposes (i.e. carrying out grant-funded research other than in the course of business). If the proportion of use of a gas or electricity for relevant residential and relevant charitable use is over 60% of the total use, the supplier can apply the reduced rate (5%) to the whole charge.

If less than 60 per cent of the fuel or power is for non-business use VAT will be charged pro rata – that is, at the reduced rate on that portion which is for non-business use and at the standard rate on that portion which is for business use.

### **3.15 Internal recharges**

There is no VAT due on internal recharges. When internal charges are made between internal departments, the transactions should be entered with a tax code of JO.

### **3.16 Media Production & Library services**

The supply of printed matter by Universities is taxable at either the standard (S3) or zero-rate (SZ), depending upon its nature.

Materials sold only to the University's students, qualifying as 'closely related to the supply of education', are exempt (SX).

If the University lends or hires a zero rated article including books any charge should also be zero rated. The income from lending CDs or other electronic media will be subject to VAT (tax code S3).

The sale of photocopied material is standard rated (S3), except where the supply is to the University's students for an educational purpose (SX).

If the University sells licences to third parties, allowing them access to print copies of our publications, then these are a standard-rated supply and VAT should be charged.

Charges to students for photocopying are exempt if supplied for an educational purpose. Any other photocopying is standard rated unless the charge is for a duplicate of a brochure or book in which case this is zero rated.

### **3.17 Medical Equipment and Supplies & Zero rate relief**

The University, as a charity is eligible for zero-rate relief on certain purchases/imports of goods and services related to medical/veterinary research, training, diagnosis or treatment. The reliefs available are explained further below.

Equipment qualifying for zero rate relief

The University is able to claim zero rate relief from VAT on its purchase, import, lease or hire of the following types of equipment where it is to be used mainly (i.e. >50% use) for medical or veterinary research, training, diagnosis or treatment.

- Medical equipment,
- Veterinary equipment,
- Computer equipment and certain software,
- Video equipment,
- Sterilising equipment,
- Refrigeration equipment
- Laboratory equipment and
- Scientific equipment.
- Parts and accessories for use in or with any of the above equipment
- The repair, maintenance and installation of qualifying goods.

Medical equipment is equipment that has features or characteristics that identify it as having been designed for a medical purpose or function. This covers a wide range of goods, from simple items like bandages, to complex machinery such as x-ray machines and scanners. General use items used to equip a medical facility, such as a television purchased for use in a hospital ward, are not medical equipment.

Scientific equipment is equipment designed to perform a scientific function. This includes precision measuring equipment and analytical equipment such as thermometers, weighing machines and spectrometers. Equipment that is not designed to perform a scientific function, but merely works on a scientific principle, is not scientific equipment.

### **3.18 Option to tax**

An option to tax allows the University to recover VAT on the construction and maintenance costs associated with a property. VAT must be charged on any rental income derived from buildings on which an option to tax is in place.

### **3.19 Postage**

Stamps/postage charges are exempt. This will normally arise where a department is recharging franking machine costs to a member of staff or an external body.

However, if you make a charge for postage which is connected with a supply of goods or services (e.g. posting a report as part of a consultancy service) then the postage charge will have the same liability as the goods or services provided.

Courier charges are Vatable, unless the item is going outside the EC in which case they would be zero-rated.

### **3.20 Pro-forma invoices/requests for payment**

Where payment is made to a supplier on the basis of a pro-forma invoice or cash with order, the department must ensure a tax invoice is obtained and forwarded to the Accounts Payable team, clearly marked "For information only DO NOT pay".

Proforma invoices are issued by suppliers who are set up to account for VAT on receipt of payment rather than at the point an invoice is issued. The final tax invoice will then be used to recover VAT on costs incurred where that is possible.

### **3.21 Replacement degree certificates**

Charges for replacement degree certificates are subject to standard rate VAT.

## 3.22 Reverse charge & Acquisition VAT

### Services

Where the University receives services from suppliers outside the UK the University has to pay Reverse Charge VAT on these services to HMRC. The reverse charge is intended to make purchasing decisions "VAT neutral" and to avoid the need for suppliers to register for VAT in multiple EU states. When the reverse charge applies, there is no VAT advantage in purchasing from an in-country supplier as opposed to an out of country supplier.

Reverse charge would be due on most services where a supplier is elsewhere in the EU or overseas. Common examples include the following:

- overseas recruitment agents
- consultancy/advisory services
- electronic publications or journals
- software

There will, however, be some circumstances where this does not apply e.g.

- admission to an event or exhibition overseas (rather than exhibiting at)
- marking or other examination services.

Reverse charge VAT will also not apply for hotel accommodation, subsistence or car hire outside the UK unless billed for as part of a charge for other services such as consultancy.

Reverse charge VAT will also not be due on services that would qualify for zero rating if bought from suppliers in the UK e.g. qualifying advertising or publications

VAT is also due on goods imported from overseas. When goods are imported from outside the EU, VAT will be charged at the port of entry. When goods are imported from other countries in the EU, the University must account for "Acquisition VAT" alongside Reverse Charge VAT.

These rules are designed to make purchasing decisions "VAT neutral". When the reverse charge applies, there is no VAT advantage in purchasing from a UK supplier as opposed to a supplier from overseas.

### Secondments/supply of service

#### Supply of service

Where the University has agreed to undertake work on behalf of a client and allocates certain members of staff to that work but has the right to substitute another member of staff to that work then this would represent the supply services.

The VAT treatment would depend on the nature of service supplied. Where staff are supplied but remain under the University's control this is regarded as a supply of services rather than a supply of staff, and the VAT liability would be determined by the liability of the service. For example, if members of staff were working for another educational institution under a

contract that requires the University to supply a lecture or tutorial course, this would represent the supply of education which would be exempt from VAT. If instead the University were providing administrative support to an external organisation and a member of staff was assigned to that work the fees charged for the service are subject to VAT.

Supplies of medical staff are currently standard rated for VAT. The 'end purpose' of health provision is not sufficient to exempt such supplies.  
Secondment of staff

If the University agrees to second specified members of staff to work under the direction and control of another party, then there is a secondment/supply of staff that is taxable. The supply is essentially the granting of rights to the other party for the member of staff to be managed by that party and is taxable at the standard rate. The supply is taxable even if the University is simply recharging the costs it has incurred such as gross pay, national insurance and employer's pension contribution.

#### **Supply of staff and joint employment**

Where staff are jointly employed there is no supply for VAT purposes between the joint employers. Staff are jointly employed if their contracts of employment or letters of appointment make it clear that they have more than one employer.

### **3.23 Sports**

#### **Supply of sporting services to individuals**

The supply of sporting services to individuals by the University as an Eligible Body qualifying under Note 2A to Group 10, Schedule 9 of VATA 1994 is exempt from VAT. The definition of an Eligible Body under Group 10 is different from that under Group 6 for the Education Exemption. The conditions for an Eligible Body under the sporting exemption given in Group 10 are given in HMRC's Internal Guidance Note VSPORT2000: -

- a) It is non-profit making
- b) Its constitution does not allow it to distribute profit or surpluses it makes, other than to another non-profit making club, or to its members on its winding up or dissolution
- c) It uses all profits or surpluses from its playing activities to maintain or improve the related facilities or for the purposes of a non-profit making body
- d) It is not subject to commercial influence.

The University, as an exempt charity regulated by HEFCE meets the conditions given above and is an eligible body for the purposes of the sporting exemption.

For the purposes of this exemption, an "individual" is a person who actually takes part in the sporting or physical education activity and this includes family groups, informal groups, and non-profit making entities, where one individual makes a booking on behalf of a group and the true beneficiaries are the persons taking part in the activity.

### **Group for sports activities**

A class which is led and directed rather than merely supervised by University staff is classified as education and is exempt from VAT. If the mere presence of staff is to, say, supervise on health and safety or insurance grounds, the service is a grant of facilities and the conditions above apply.

### **Supply of sporting facilities to Groups/Organisations**

The supply of sporting facilities to a group or commercial organisation is a standard-rate supply, unless the supply qualifies for exemption under one of the following concessions:

- the facilities are provided for a continuous period of use exceeding 24 hours. The person to whom the facilities are let must have exclusive control of them throughout the period of letting, or
- the grant of facilities is for a series of ten or more periods.

As explained above, informal groups and non-profit making bodies, where one individual makes a booking of the sporting facilities on behalf of a group of users, and the true beneficiaries are the persons taking part in the sport, qualify as individuals and are not subject to these group rules. If an organisation fails to meet any of the above criteria, then the supply of sporting facilities will be standard rated.

### **3.24 Telephone income**

If the University recharges the cost of telephone calls, line rental costs or telecommunication services to an external body, which uses the University's telephone system, then the recharge is taxable. Any contributions from staff to cover the cost of private calls should be treated as taxable (S3).

### **3.25 Vending income**

Income from vending machines would be subject to VAT unless it is clear how much of the income relates to students. Where income can be apportioned, the proportion generated from students would be exempt from VAT and the remainder will be subject to standard rate VAT.

### **3.26 Zero rate supplies**

Income from the sale of certain goods and service is subject to zero rate VAT.

We can reclaim VAT on any expenditure related to that income. This is in contrast to the fact that we cannot recover VAT on any exempt activities e.g. delivery of education by the University or rental of properties.

If you supply zero-rated goods or services we charge VAT at zero per cent so there is no charge we must show VAT rate on sales invoices.

Zero rate VAT applies to the following:

- Certain basic food and drink for human consumption (however, there are many items which are subject to standard rate VAT e.g. bottled water, crisps, alcohol, hot food).
- Air fares, rail fares, bus fares and other passenger transport.
- Construction and sale of new buildings for a relevant charitable or relevant residential purpose.
- Leaflets, pamphlets, brochures and newspapers (in paper format) (Notice 701/10). Note, stationery is standard rated including exercise books.
- Books, maps, charts, magazines, publications.
- Certain protective clothing including cycle helmets (CE Marked)
- Water for domestic use
- Sewage for domestic or industrial users
- Certain building services or alterations and goods designed for disabled people (Notice 701/7)
- Construction and first sale of a new dwelling or property converted into a dwelling
- First freehold or long leasehold sale of a commercial building converted into a dwelling or dwellings

### 3.27 Capital Goods Scheme

If there is a partial recovery on a capital item, then the capital good scheme (CGS) would have to be applied within the VAT legislation. The CGS recognises that businesses use capital expenditure over a number of years by requiring the initial input VAT claimed to be adjusted over a period of 10 years.

### 3.28 Expenses

Use **Outside the scope** of VAT for:

Claims for mileage expenses incurred (either in the UK or overseas)

Claims for expenses incurred **overseas**, including:

- accommodation costs (including hotel bills)
- travel (tickets for air, rail, bus and tram travel)
- taxi fares
- car hire
- car parking charges
- mileage
- hospitality costs (including meals)

**Rail Tickets** – No VAT.

**Subsistence** – VAT receipt to recover VAT (business entertainment recoverable but staff entertainment not recoverable).

**Accommodation** – VAT can be recovered for an employee on a business trip.

**Car Parking** - VAT claimable on certain car parking charges (such as NCP). If there is VAT to reclaim there will be a VAT number on the car parking ticket.

## 4.0 Categories of non-vatable Agresso VAT codes

### **PZ Purchases Zero Rated** **SZ Sales Zero Rated**

Purchase of unprepared food (prepared food is taxable) PZ

Purchase and sale of books & publications (there are some exceptions) PZ SZ

Advertising PZ All advertising is Zero-Rated, some suppliers may require an Exemption Certificate

Purchases of equipment to be used in medical research PZ (an Exemption Certificate must be issued)

Transport costs, bus, rail & air PZ

Supply of fully managed transport service PZ

Sewerage & water PZ

Services/goods supplied overseas SZ (if supplied in UK and invoiced to foreign company the supply is Standard Rated)

### **PX Purchases Exempt** **SX Sales Exempt**

Purchase of postage stamps PX (sales of postage stamps are Standard Rated)

Rents charged, where option to tax not exercised. PX SX

External charges for classroom bookings SX (excl facilities which are taxable S3)

Education, student accommodation and other closely related supplies to students, PX

Insurance PX (an insurance premium tax is charged, but is not VAT)

Research supplied by an eligible body, including research councils SX

Health & welfare PX

Financing charges, bank interest PX SX

**PO Purchases Outside the scope of VAT**  
**SO Sales Outside the scope of VAT**

HEFCE Funding SO

Recharges between intercompanies (In the same VAT group) SO PO

Supplies from a supplier not registered for VAT PO

Statutory payments (NI, VAT, pensions etc) PO

Reimbursement of expenses PO

Advance of expenses/salary PO

Grants to students PO

Invoicing for non repayment of bursaries SO

Refund of fees PO

Internal recharges within a University company PO SO

Donations received, with no strings attached SO

When acting as an agent for the transfer of funds PO SO

Government research and grant funding SO

Council tax PO

Local authority planning applications PO

Legal/administration charges re debt collection

## 5.0 VAT treatment of third stream activities

The University currently undertakes a number of additional activities outside of its core educational and research charitable remit. These include:

- consultancy;
- closed/commercial courses;
- summer letting of accommodation;
- letting of property other than accommodation (such as the Chelmsford Innovation Centre);
- commercial research activities; and
- catering.

These activities can be viewed as “non-primary purpose” trading from the perspective of the relevant charity and corporation tax law, with limitations on the amount of non-primary purpose trading which can be undertaken by each charity. As a result, non-primary purpose activities can be subject to corporation tax in the hands of the University (or as a minimum, can lead to a requirement to undertake additional administration resulting from a requirement for the University to submit Corporation Tax returns).

For these reasons, the University established a trading subsidiary, ARE, to carry out such activities and the following types of non-primary purpose trading will be carried out by ARE:

- consultancy;
- closed/commercial courses;
- summer residency lets; and
- letting of other property (such as the Chelmsford Innovation Centre).

All other activities will continue to be carried out by the University or ARE as before.

### **Consultancy**

Consultancy income should be taxable at the standard rate for VAT purposes whether carried out by the University or one of its trading subsidiaries. As a result, there should be no immediate VAT implications of undertaking consultancy contracts through the University or ARE.

### **Closed/commercial courses**

It must be recognised that whilst the supply of education and vocational training is treated as exempt for VAT purposes when supplied by the University (an eligible body), eligible body status does not automatically extend to the subsidiaries of universities that are used to pursue business interests. This means that courses provided by trading companies can be subject to VAT.

However, subsidiary companies that supply education can often qualify as eligible bodies such that the supply of education remains exempt where they meet certain requirements. In general, a University subsidiary providing at least some higher education leading to the award of a qualification by the University will normally qualify for VAT exemption on its teaching income.

It is also relevant to note that certain goods and services closely related to a supply of education (such as car parking) can also be treated as exempt for VAT purposes when supplied by eligible bodies together with education.

Such supplies would no longer qualify for exemption if made by a trading subsidiary which is not an eligible body.

In general terms, the University may ultimately benefit from any increase in the value of taxable supplies (i.e. if a non-primary purpose course carried out by ARE does not qualify for exemption) by way of increased VAT recovery on overhead costs.

### **Summer residency lets**

The VAT exemption for supplies of education extends to the supply of certain goods and services that are closely related to a main supply of education. This includes the supply of residential accommodation provided that the accommodation is for the direct use of the student receiving the main supply of education or is supplied to another eligible body for use by its students. HMRC also allows Universities to exempt the supply of accommodation to students from other UK universities, although strictly there is no legal basis for this.

Supplies of residential accommodation that do not meet the above conditions (e.g. short-term summer lets for non-students or for conferences, etc) will be taxable at the standard rate whether supplied by the University or ARE.

For the avoidance of doubt, this is not dependent on whether the building qualified for VAT relief on construction and is independent of whether the University or ARE has opted to tax as it is likely to be viewed as accommodation similar to that provided in hotels, etc.

If accommodation is supplied with non-primary purpose education (e.g. training courses supplied to commercial customers which are not open to the general public -recommended to be provided through ARE for corporation tax purposes) the accommodation is likely to be taxable if the education does not qualify for exemption. Again, this is likely to be irrespective of whether the University or ARE has opted to tax.

### **Letting of other property**

VAT exemption usually applies to the letting of most commercial property but is subject to the "option to tax".

Making an option to tax (which involves making a decision to opt to tax and notifying HMRC of this) usually means that the letting of commercial property becomes subject to VAT (i.e. standard-rated).

This has the potential benefit that VAT is recoverable in relation to the letting (in whole or possibly in part if a building is mixed use) and additional recovery of VAT on overhead costs.

This treatment should apply equally to both the University and ARE if commercial property is let to third parties.