

What do you need to know about VAT for CiLCA?

VAT is a deeply complex aspect of a local council officer's work so for CiLCA you make a start by showing that you understand basic concepts that underpin VAT legislation. For example, is the money that the council spends related to a *business or non-business* activity? And are the goods or services purchased or provided by the council *taxable, zero-rated or exempt* supplies? This helps you to recognise when you can or cannot reclaim VAT.

Paying VAT

The council spends money buying materials, goods and services so that it can, in turn, provide an activity for the benefit of the community. The materials, goods and services *purchased* by the council and, in turn, those *provided* by the council are known in VAT-speak as 'supplies'.

When a council buys supplies, it usually pays VAT. The council can claim this VAT back from HMRC depending on whether the money was spent for a *business or non-business* activity and on a *taxable, exempt or zero-rated* supply.

Business and non-business activities

A *business* activity provides goods or services (supplies) to members of the public in return for payment, but you need to ask additional questions before being certain that an activity is correctly identified as a business activity. For example, occasional or one-off activities may not count since business activities have a degree of frequency and scale and are provided over a period of time. Note, however, that the activity *is* a business activity if it competes with the private sector. You also need to note that business activities don't necessarily make a profit. Later you will discover that some councils can sometimes reclaim VAT paid out on supplies purchased for business activities but that others cannot.

If goods or services (supplies) are provided to members of the public by the council free of charge, then this is a *non-business* activity. Non-business activities also include those carried out as a public authority under a special legal framework that doesn't normally apply to others, such as the provision of allotments and cemeteries. The lease or sale of land for a peppercorn or a pound is also a non-business activity. Councils can normally reclaim any VAT paid out for supplies purchased to help it provide a non-business activity.

Taxable, zero-rated and exempt supplies

If supplies are purchased to provide a business activity, they are called business supplies. Business supplies are taxable, meaning that the Government (via HMRC) usually collects VAT charged on those supplies from the person or organisation registered to pay VAT. The registered organisation in turn collects the VAT required from the customer. In this case, the customer is the council.

Normally, VAT is charged at 20% of the cost of the item purchased, but, just to confuse you, some taxable business supplies are exempt, zero-rated or have a different rating.

- Taxable business supplies that are *exempt* from VAT are set out in Schedule 9 of the VAT Act 1994. Examples of exempt supplies include museum admissions and burials or cremations.

- Some business supplies are taxable but the Government has set the VAT rate as zero. Examples include books, newspapers, children's clothes and motorcycle helmets.
- A few taxable business supplies have a different rating; for example, domestic fuel is charged at 5%.

It is particularly important to recognise the difference between exempt and zero-rated supplies when reclaiming VAT.

Reclaiming VAT

The council can usually reclaim the VAT paid out for *non-business* supplies. Remember, these are normally supplies purchased for activities that are available to the community free of charge. Before reclaiming VAT on non-business supplies, the council checks that it placed the order, received the supply and the invoice and pays the bill out of its own funds. The invoice must be addressed to the council and identify the VAT element of the cost. This makes it very clear that the council cannot reclaim VAT on behalf of another community organisation.

The situation for *business* activities (supplies purchased for a business activity for which members of the public are charged) is more complicated and you need to know the difference between exempt and zero-rated supplies (supplies for exempt or zero-rated activities).

- All local councils, whether or not they are registered to pay VAT to HMRC, *can* reclaim VAT paid out on supplies for their VAT-exempt business activities, provided the VAT involved is less than £7,500. If the VAT paid out on an exempt activity is more than £7,500, then it cannot be reclaimed.
- Councils that *are* registered to pay VAT *can* reclaim VAT paid out for business supplies including those that are zero-rated.
- Councils that are *not* registered to pay VAT to HMRC *can't* reclaim VAT paid out for business supplies, even those that are zero-rated.

Registering for VAT

A council must register to pay VAT to HMRC if it regularly provides taxable supplies (goods or services) as part of its activities for the community. Remember that taxable supplies are those involved in business activities. So if the council regularly provides goods or services to members of the public *in return for payment*, it must register to pay VAT – even if those goods or services are zero-rated. If the council provides minimal or infrequent goods or services for payment then it may not need to register and should seek advice from HMRC.

If a council is registered for VAT, it must submit a quarterly VAT return to HMRC (Her Majesty's Revenue and Customs). This return is the vehicle by which the council reclaims from HMRC some of the VAT that it has paid out. A council that is not registered should reclaim VAT at least once a year and at the latest within three years of the expenditure being incurred. As it is essential to be able to track VAT in the council's accounts, the cash book should show the VAT element of each purchase or sale separately from the remaining sum.

For further information on VAT, you should study [VAT Notice 749: local authorities and similar bodies](#).

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