

VAT - Reducing the cost to Educational Institutions

VAT is a significant tax cost for Education Providers. However, that also means VAT offers a great opportunity to make savings. Due to the complexity of the legislation, and the constant changes affecting the sector often coupled with an aggressive approach by HMRC, it is important to have access to technical expertise to support you.

SOC VAT consultants are specialists in advising Educational Institutions, charities and other not-for-profit organisations. We have considerable experience in the sector and aim to provide you with clear, understandable, yet innovative solutions.

We can provide guidance and assistance on all VAT matters affecting Universities, Further Education Colleges and Schools, such as student accommodation, research activity, fuel and power supplies, admissions to cultural events, recovery methods for VAT on expenditure and the various zero rate reliefs that may be available. Alongside technical issues, we have expertise in assisting educational establishments in working with their existing finance systems to ensure accurate capture of relevant information. We have set out in this brochure some of the ways in which we can assist you.

SOC VAT Consultants are members of the Charity Finance Directors Group and the Charity Tax Reform Group. One of our consultants was also employed as the in-house VAT adviser at a major UK university for three years until December 2006 and hence we are well placed to be aware of the issues facing the sector

We appreciate that all educational establishments vary enormously and recognise the frustration that stems from advisers' inability to get to know your business. SOC VAT's charge-out rates are substantially lower than those of the big accountancy firms, which can enable us to spend more time to know you and your business and have us better placed to advise you. As a pure VAT advisory firm, we have none of the conflict issues with audit function which can cause difficulties in the current climate.

VAT services

The VAT liability of activities and income

This can be a complex area for educational establishments, especially those also involved in a range of activities that stretch beyond education. Unless the treatment of income and activities can be correctly decided, an institution could be at risk of paying too little VAT to Revenue & Customs ("Customs"). Equally, it could be paying too much VAT.

One very important issue with liability is to appreciate that the ability to recover VAT on expenditure is reliant on the institution having determined which activities are by way of "business", or if they are "non-business"; the business supplies are then categorised as standard-rated, zero-rated, reduced-rated, or exempt from VAT. Also, income might not necessarily be consideration for a supply at all, but simply a donation or grant which is outside the scope of VAT.

It is not surprising therefore that mistakes occur and institutions are faced with time consuming VAT visits, unexpected assessments, interest and possibly penalties. We can assist an institution, if it is in any doubt, by advising on specific current or past transactions, or by carrying out a review of all activities and income streams. This will help you to be compliant with Customs requirements, and avoid any unpleasant and costly surprises in the future. It may also provide you with an unexpected VAT repayment from Customs.

As an example, a client was treating all of its subscription income as exempt. It could not therefore recover any VAT in relation to this activity. We agreed with Customs that some of the income could be treated as zero-rated, allowing for a proportion of its VAT on costs to be recovered over a retrospective, three year, period.

Bespoke Training Courses and VAT manuals

Bespoke courses, together with appropriate written material, are one of the best ways of meeting an institution's training needs. Off-the-peg VAT courses are often, by definition, too general to meet specific training requirements. We develop and deliver courses that are tailored to meet your training needs: our courses are interactive and the feedback we have received from clients who have used this service has been very positive.

In addition, we can prepare VAT manuals and income/expenditure reference matrices, again tailored to your needs. Such material can be especially helpful to meet training needs in an organisation with a turnover of staff.

Business/non-business and partial exemption methods

VAT recovery can be complex for bodies which carry on a range of non-business, VAT exempt and taxable activities. Rarely will a standard recovery method be suitable for an educational establishment; even less rarely will it be financially beneficial.

Methods vary considerably, as do the recovery rate that they achieve and most require the prior agreement of Customs. We can review your current VAT recovery position, advise on appropriate methods that are not overly complex to administer and negotiate their use with Customs.

Universities particularly will be aware of the difficulties surrounding the inclusion of HEFCE teaching and research grants and the onset of variable teaching fees

As an example, we recently reviewed a partial exemption method that was based on income and which we did not believe produced a fair recovery for the University. We suggested (and agreed with Customs) a method based on staff numbers. This reflected the activities of the University more accurately, improved the recovery rate by approximately 30% and was much easier to administer.

■ Property construction and transaction

The potential VAT cost of property transactions is usually significant, whether this involves new build, conversions, refurbishments or extensions. With all these works an institution can potentially save all or some of the VAT that a supplier might ordinarily intend to charge (so he is not exposed to a future issue with Customs). Reliefs available will depend on the use of the property. It is usually necessary to agree the amount of VAT that is charged with the supplier and Customs and it may well be necessary, as mentioned above, to issue certificates. With regard to deciding whether VAT charged can be recovered by the charity, it may not always be easy to determine whether the use is business or non-business, taxable or exempt. For example the rent of non-domestic properties can be exempt or taxable depending on the "option to tax".

Land and property transactions are very complex. It is therefore essential that an institution gains independent professional advice when undertaking such transactions. We can assist you in all property transactions.

■ Zero rate reliefs

Although charities, like other businesses, do pay VAT, they are potentially able to benefit from a number of zero-rated reliefs, for example on the construction of qualifying buildings, disabled access, equipment for medical research and advertising. Many of these reliefs are strict in their application and may require ongoing monitoring to meet the relief's criteria. There are penalties for inappropriate use of zero-rating certificates, hence it is important to clearly understand the circumstances in which a relief is available and how it can be achieved.

We can confirm whether you are entitled to a relief and how to achieve it. We can prepare flow charts to allow staff to decide if purchases are zero-rated.

We recently prepared a charity advertising flow chart for a client based in various locations across the country, to ensure staff were able to maximise the relief available.

■ VAT group registration

Many entities form trading subsidiaries to undertake activities that are not consistent with their aims and objectives. This gives rise to the potential for VAT savings, perhaps through VAT-grouping, or the generation of additional taxable supplies. However there are pitfalls that need to be taken into account, for example anti-avoidance legislation, even though you may consider VAT to be a subsidiary reason for the group structure.

We recently advised on a new VAT group structure for a University which had the effect of raising its partial exemption recovery rate from 16% to 24%, resulting in an ongoing annual saving of approximately £95,000.

■ Health checks and VAT officer visits

You may be concerned that your charity is exposed to a VAT cost were Customs to visit. We can carry out a health check to provide you with comfort. Importantly, we often find that a health check identifies opportunities to save VAT. In addition, should you so wish, we could be present at a visit.

You should remember that Customs decisions can be wrong, hence the number of Tribunal and other court cases each year. We offer a free initial review of assessments and decisions. We would then advise you if the decision can/should be challenged, complying with Customs' requirements, and they can also identify opportunities to save VAT.

■ Disclosure Rules

We can assist with ensuring that you meet HMRC's requirements under the disclosure of VAT 'schemes' rules, reviewing any existing or proposed arrangements that may fall foul of either the listed schemes or the 'hallmarks of avoidance'.

■ Training courses

One of the most successful ways of identifying VAT issues and saving opportunities is by training staff.

■ SOC VAT Contacts

Business Phone Number - 0870 770 3370

Socrates Socratous - soc@socvat.com

Andy Hallsworth - Andrew@socvat.com

Solutions On Call

8 Riverside Place, Ladysmith Road, Enfield, Middlesex EN1 3AA
T: 0870 770 3370 • F: 0870 770 7071 • E: info@socvat.com • W: www.socvat.com