



**ARTICLE NUMBER:**

**CORPORATE AND  
ENVIRONMENTAL OVERVIEW  
AND SCRUTINY**

**MEMBERS UPDATE 2019-20  
ISSUE: 1**

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**Article of:** Borough Treasurer

**Relevant Portfolio Holder:** Councillor A Yates

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**SUBJECT: ANNUAL VAT REPORT 2018-2019**

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**1.0 PURPOSE OF ARTICLE**

1.1 To inform Members of developments and performance in relation to Value Added Tax (VAT).

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**2.0 BACKGROUND**

2.1 The Accountancy Service has the following objectives for accounting for VAT:

- minimise the Council's VAT liabilities
- raise the profile of VAT within the Authority
- develop and improve VAT processes and procedures.

2.2 One of the means of achieving these objectives is the production of an annual VAT report for members.

### 3.0 ACCOUNTING FOR VAT

- 3.1 The Council pays VAT to its suppliers for most of the goods and services it procures. The Council also charges VAT for most goods and services provided to its customers for business reasons. Any VAT paid to suppliers is recovered from Her Majesty's Revenue and Customs (HMRC) and any VAT received on the Council's supplies is paid to HMRC. This is done by the completion of a monthly VAT Return.
- 3.2 Responsibility for the Council's VAT function is incorporated within the Accountancy team and officers aim to continually minimise the Council's VAT liabilities. This includes ensuring fines, interest, and assessments are minimised and VAT recovery is maximised. To achieve this, every effort is made to ensure that VAT is accounted for correctly throughout the Authority and that all staff are aware of relevant changes in VAT Regulations.

### 4.0 VAT MANAGEMENT AND PERFORMANCE

#### VAT Returns

- 4.1 The Council generally expends more on VAT than it collects from its own activities. This is because most of its own activities are not classed as being carried out for business purposes and VAT is, therefore, not applicable. As such, the monthly VAT Returns reclaim the net VAT from HMRC by the Council. During 2018-19, the Council paid a total of £5,555,329 VAT to suppliers and received a total of £987,713 VAT from its own customers. This resulted in a net total of £4,567,616 being reclaimed from Revenue and Customs. The average VAT return for 2018-19 was therefore £380,634 comprising, £462,944 due from Revenue and Customs and £82,310 due to them. Table 1 shows how these values compare to the previous financial year of 2017-18:

	2018-2019 £'000	2017-2018 £'000
Total VAT:		
Paid to Suppliers	5,555	4,393
Received from our own Customers	987	1,098
Reclaimed from Customs and Excise	4,568	3,295
Average Monthly VAT:		
Paid to Suppliers	463	366
Received from our own Customers	82	91
Reclaimed from Customs and Excise	381	275

## **VAT Penalties**

- 4.2 If there are mistakes within the VAT return or if something is missed from it the Council is liable to fines, interest charges, and other financial penalties. A voluntary disclosure is declared when errors are above a threshold of £10,000. This limit has been increased by HMRC from £2,000 as from 1 July 2008. To date we have not been required to register a voluntary disclosure as the Council has not breached this threshold. As from 1 April 2009 a new penalty regime has been implemented by HMRC, which could have an impact on the Council due to the way that fines, interest charges and other penalties are to be calculated, as this could result in a greater percentage of fine being levied to the Council. However, currently this new regime has had no impact on the Council, which is due to no fines etc being imposed.

## **De Minimus Calculation (Partial Exemption)**

- 4.3 Exempt activities for VAT purposes are defined in the VAT Act 1994 and cover 15 categories. Local Authorities can only reclaim VAT paid to their suppliers for its exempt activities providing that this is less than 5% of the total VAT paid to suppliers, for 2018-19 this equated to around £280k. If this threshold is exceeded, the Council may be liable to pay the full value of its exempt VAT to Revenue and Customs.
- 4.4 The VAT team monitor exempt expenditure throughout the year to ensure that the Council does not exceed the 5% limit and in recent years the de minimus level has been around 3%. However as a result of the capital works carried out at Gorsey Place during the year costing around £900k it is expected that the 5% threshold will be exceeded for 2018-19. In order to avoid having to repay HMRC the exempt VAT, we wrote to them as part of the VAT planning process back in 2016 informing them of the likely breach. HMRC have the discretion to allow a breach if they consider it occasional. They subsequently confirmed acceptance of the occasional nature of the breach in March 2016 and we are therefore not required to pay over the total exempt input VAT for 2018-19.

## **VAT Manual and Training**

- 4.5 The Council has a VAT manual, which is available on the Council's [Intranet](#) and is updated periodically. Details on vat issues are also included in the Finance Budget Manual which is published on the intranet.

## **Overall Performance**

- 4.6 Management of the VAT function within the Authority is a well established process. For 2018-19 the monthly vat return to HMRC was always completed on time. HMRC inspections in previous years have been undertaken with the result that the

Council's processes and procedures have been given a clean bill of health. The authority is part of a Lancashire wide Council networking group whereby VAT topics and issues of a common interest can be raised. This promotes good practice across the Councils and the latest VAT topics are discussed in order to maximise performance.

## **5.0 RECENT VAT DEVELOPMENTS**

5.1 Making Tax Digital is a new initiative that forms a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs. They require VAT-registered businesses with a taxable turnover above the VAT threshold to use the Making Tax Digital service to keep records digitally and use software to submit their VAT returns from 1 October 2019. There are cost implications to this initiative but the exact figure is not known at this time.

## **6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

6.1 There are no significant sustainability impacts or Community Strategy implications associated with this Update.

## **7.0 RISK ASSESSMENT**

7.1 The formal reporting of performance on VAT is part of the overall management and control framework that is designed to minimise the financial risks facing the Council.

## **8.0 SUMMARY**

8.1 Value Added Tax is a technical and complex area and mistakes can be costly to the Council. The Accountancy team strive to ensure that the Council's VAT liabilities are minimised and VAT recovery is maximised by developing and improving VAT processes and procedures.

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### **Background Documents:**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Article.

### **Equality Impact Assessment**

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

**Appendices:**

None.