



ARTICLE NUMBER:

**POLICY AND RESOURCES
COMMITTEE: 19 November
2024**

MEMBERS UPDATE 2024-25

Article of: Director of Finance & Resources

Relevant Lead Member: Councillor Mark Anderson

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SUBJECT: ANNUAL VAT REPORT 2023-2024

1.0 PURPOSE OF ARTICLE

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

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 His 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 2023-24, the Council paid a total of £7,532,725 VAT to suppliers and received a total of £720,023 VAT from its own customers. This resulted in a net total of £6,812,702 being reclaimed from Revenue and Customs. The average VAT return for 2023-24 was therefore £567,725 comprising, £627,727 due from Revenue and Customs and £60,002 due to them. Table 1 shows how these values compare to the previous financial year of 2022-23:

	2023-2024 £'000	2022-2023 £'000
Total VAT:		
Paid to Suppliers	7,533	6,198
Received from our own Customers	(720)	(625)
Reclaimed from Customs and Excise	6,813	5,573
Average Monthly VAT:		
Paid to Suppliers	628	516
Received from our own Customers	(60)	(52)
Reclaimed from Customs and Excise	568	464

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. To date we have not been required to register a voluntary disclosure as the Council has not breached this threshold. As of January 2023, a new penalty points regime has been implemented by HMRC. This may have an impact on the Council due to the way that fines, interest charges and other penalties are calculated. However, currently this new regime has had no impact on the Council, due to no fines etc being imposed.

Partial Exemption Calculation (Deminimus)

- 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 2023-24 this equated to around £376,650. If this threshold is exceeded, the Council may be liable to pay the full value of its exempt VAT to Revenue and Customs, not just the amount in excess of the limit.
- 4.4 The VAT team monitor exempt expenditure throughout the year to ensure that the Council does not exceed the 5% limit. In recent years the partial exemption level has been around 1.5% and the final calculation for 2023/24 was 1.18%.
- 4.5 The VAT team is expected to be proactive in effective tax planning in order to protect the Council's partial exemption position.

VAT Manual and Training

- 4.6 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

- 4.7 Management of the VAT function within the Authority is a well-established process. For 2023-24 the monthly VAT returns to HMRC were 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.

5.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

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

6.0 RISK ASSESSMENT

6.1 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.

7.0 SUMMARY

7.1 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.

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.