



ARTICLE NUMBER: 2B

**CORPORATE AND
ENVIRONMENTAL OVERVIEW
AND SCRUTINY COMMITTEE**

**MEMBERS UPDATE 2017/18
ISSUE: 1**

Article of: Borough Treasurer

Relevant Portfolio Holder: Councillor C. Wynn

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SUBJECT: ANNUAL VAT REPORT 2016/2017

Wards affected: Borough wide

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 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 2016/2017, the Council paid a total of £4,747,016 VAT to suppliers and received a total of £1,070,166 VAT from its own customers. This resulted in a net total of £3,676,850 being reclaimed from Revenue and Customs. The average VAT return for 2016/2017 was £306,404 comprising, £395,585 due from Revenue and Customs and £89,181 due to them. Table 1 shows how these values compare to the previous financial year of 2015/2016:

| Table 1 - VAT Return Comparison: 2016/2017 to 2015/2016 | | |
|--|--------------------|--------------------|
| | 2016/2017 £'000 | 2015/2016 £'000 |
| Total VAT: | | |
| Paid to Suppliers | 4,747 | 5,678 |
| Received from our own Customers | 1,070 | 1,025 |
| Reclaimed from Customs and Excise | 3,677 | 4,653 |
| Average Monthly VAT: | | |
| Paid to Suppliers | 395 | 473 |
| Received from our own Customers | 89 | 85 |
| Reclaimed from Customs and Excise | 306 | 388 |
| | | |

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 Minimis 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 2016/17 this equated to £237,350. If this threshold is exceeded, the Council may be liable to pay the full value of its exempt VAT to Revenue and Customs, i.e. £237,350.
- 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 percentage has not been greater than 2% however for 2016/17 the threshold of 5% will be breached.
- 4.5 The reason for the breach is the construction of the Green Wood Business Centre at Gorsey Place and the reconstruction of fire damaged commercial units also at Gorsey Place. Both of these projects give rise to exempt activity meaning the amount of irrecoverable input VAT associated will be in the region of £428,000. This level of exempt input VAT will cause the breach of the threshold.

- 4.6 HMRC was informed in writing of the expected breach and a request that they waive the breach made. HMRC may consider a breach of the 5% limit as occasional depending on the circumstances and reason for the breach. Confirmation of acceptance to waive the breach was received from HMRC in a letter dated 11th March 2016. Both letters are attached under Appendix A at the end of the report.

VAT Manual and Training

- 4.7 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

- 4.8 Management of the VAT function within the Authority is a well established process. For 2016/17 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 The Vat Team continually monitor developments in the sector in order to identify any implications for the Council.

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.

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:

- A. Partial exemption breach letter and HMRC response.