

Making Tax Digital – RM Finance Updates

From 1st April 2021 HMRC's new Making Tax Digital regulations will change the way all UK Local Authorities prepare and submit VAT Returns. To comply with these new regulations, North Yorkshire County Council is required to amend its current VAT processes.

The area requiring change relates to how schools record VAT in the RM Finance system. From the 1st April 2021 schools will need to follow the guidance notes around the treatment of all nil VAT. There are 3 'nil' rates of VAT, where no VAT is payable: Zero-rated, Exempt, and Outside Scope. However, all 3 'nil' rates are very different in the eyes of HMRC, and for this reason it is important that the correct one is used when processing invoices and income received.

To allow schools to record these correctly in RM Finance, we are updating the VAT Table to incorporate the 3 'nil' rates of VAT. To make sure that all schools are using the correct rates the VAT codes will be updated centrally in the new 2021/22 financial year in RM Finance.

RM Finance will update schools VAT table once they roll over into the new financial year. **So on the day that you roll over into the new financial year you will not be able to input any invoices or income. RM Finance will run the update overnight so you will be able to input transactions the following day.**

The VAT codes will be as follows:

A – Do not use

1 – 12.5% Temporary Reduced Rate

2 – 5% Reduced Rate

3 – 20% Standard Rate

4 – 0% Out of Scope

5 – 0% Zero-rated

6 – 0% Exempt

B – Do not use

C – Do not use

Which 'nil' VAT Rate?

Guidance for Schools

Part A of this guidance is aimed at determining the VAT treatment of invoices you *pay* through RM Finance.

Part B of this guidance is aimed at determining the VAT treatment of invoices you *raise* through RM Finance.

Part A: Invoices you pay

It is the responsibility of the supplier to apply the correct VAT treatment to their invoices, but, as a Local Authority school, you need to check the invoices you receive to ensure they are valid VAT invoices, and to query the VAT treatment with the supplier if you think it is incorrect.

Some of the invoices you receive will state that there is no VAT on the supply, but many will not identify which of the 3 'nil' rates of VAT applies. So, the guidance below will help you to determine the correct rate to use within RM Finance.

This guidance only covers payments where there is no VAT to pay. It does not cover payments where the VAT is at the reduced rate (5%) or the standard rate (20%) (these rates will be obvious from the invoice).

There are 3 'nil' rates of VAT, where no VAT is payable: Zero-rated, Exempt, and Outside Scope. However, all 3 'nil' rates are very different in the eyes of HMRC, and for this reason it is important that the correct one is used when processing invoices. If an incorrect VAT rate is used, this can result in fines and penalties being imposed by HMRC.

Below is an explanation of the three nil rates and some examples of supplies that are included within those categories.

1. Zero-rate

The zero-rate applies to very few goods & services. Some examples are:

- Vehicles for at least 10 people (including the driver), eg coach hire, train tickets;
- Books/magazines/newspapers (both physical and digital);
- Maps/brochures;
- Music scores;
- Catering / Food (cold food & drink items are generally either zero-rated or standard-rated. A catering contract through a non-NYCC provider will be standard-rated);
- Uniform/clothing for young children (under 14 years). Note: adult clothing/uniform is standard-rated;
- Protective helmets;
- Some equipment for the disabled (if it meets certain criteria);
- Water charges.

2. Exempt

There are very few supplies where the Exempt rate of VAT applies. Some examples are:

- Educational courses if provided by or to an 'eligible body' (eg a school). If provided by a LA/school, the supply will be outside scope;
- Exam Board fees if provided by or to an 'eligible body' (eg a school);
- Professional subscription fees (these will either be Exempt or Standard depending on the type of subscription);
- Hire of rooms without additional facilities;
- Hire of sports facilities for 10 or more consecutive lets, where no sports equipment or 'extras' are provided;
- Lease/purchase of land/buildings (eg rental invoices from MoD for schools situated near army bases);
- Stamps / postal services provided by Post Office / Royal Mail;
- Bank charges.

3. Outside Scope

This is probably the most common 'nil' VAT rate you will come across in the invoices you receive for payment. This category of VAT covers most other non-VATable supplies not mentioned above. Some examples are:

- Items on your Oracle prints (eg salary costs, traded services charges, etc);
- Journals;
- Services provided to your school from another Local Authority or school, where the service supplied is not in competition with the private sector;
- Goods & services provided by organisations/individuals who are not VAT-registered;
- Donations paid out (if no benefit is received in return for the donation);
- TV Licence;
- ICO licence;
- Rates;
- Vouchers purchased from supermarkets/online for free-school-meal children.

4. Where to go for Help

If you are unsure whether you have been invoiced correctly by a supplier, or if you require advice around which nil VAT rate to apply to the invoice you have received, then please contact the Finance Enquiry Service (FES) by using the form on the [cyps.info site](https://www.northyorks.gov.uk/cyps/info).

If you require guidance on how to process your invoices, please contact the FMS helpline by emailing fmshelpline@northyorks.gov.uk

Part B: Invoices you raise / Income you receive

It is your responsibility, as the invoice raiser, to apply the correct VAT treatment to your invoices. If you apply the incorrect VAT treatment, then the school may be liable to penalties/fines from HMRC.

Some of the invoices you raise & income you receive will have no VAT on them, but you may not know which of the 3 'nil' rates to apply. The guidance below will help you to determine the correct rate to use within RM Finance.

This guidance only covers invoices/income where there is no VAT involved. It does not cover invoices/income where the VAT is at the reduced rate (5%) or the standard rate (20%). If you are unsure whether your invoice should have VAT applied to it or not, then please see the 'where to go for help' section below.

There are 3 'nil' rates of VAT, where no VAT is chargeable: Zero-rated, Exempt, and Outside Scope. However, all 3 'nil' rates are very different in the eyes of HMRC, and for this reason it is important that the correct one is used when raising invoices or processing income. If an incorrect VAT rate is used, this can result in fines and penalties being imposed by HMRC.

Below is an explanation of the three nil rates and some examples of supplies that are included within those categories.

1. Zero-rate

The zero-rate applies to very few goods & services. Some examples are:

- Sale of books/stationery to pupils is zero-rated unless it is closely related to education, then it would be outside scope;
- Uniform/clothing for young children (under 14 years). Note: adult clothing/uniform is standard-rated;

2. Exempt

There will be very few invoices you raise where the Exempt rate of VAT applies. Some examples are:

- Secondment of teachers to another educational establishment (except if it is an NYCC school, then this would be done via journal which is outside scope). Note: for secondments of non-teaching staff, see the 'outside scope' section below for advice;
- University income for student teacher placements;
- Training income from non-NYCC schools / other organisations;
- Exam fee income;
- Lettings income including of sports facilities (this will either be Exempt or Standard-rated depending upon the facilities being let, and various other factors – for more information see Chapter 16 (VAT) of the [Schools Finance Manual](#));

3. Outside Scope

This is probably the most common 'nil' VAT rate you will come across in the invoices you raise / income you receive. This category of VAT covers most other non-VATable supplies not mentioned above. Some examples are:

- Journals;
- Delegated income (funding you receive from the Government which is paid to the LA and then passed to the school) – includes Pupil Premium, PE grants, Universal Free School Meal Grant, early years (nursery) funding, SEN income;
- SEN income / Pupil Premium from other Local Authorities;
- Secondment of non-teaching staff to another Local Authority school if you are not doing so in competition with the private sector (if it is to an NYCC school, then this would be done via journal which is also outside scope). Note: secondments of non-teaching staff to a non Local Authority organisation is standard-rated;
- Music income from parents (lessons, Assisted Instrument Purchase Scheme, etc);
- Swimming income from parents;
- Trip income from parents;
- Before & after school clubs and nurseries (if the charge is more than the overhead cost of providing the service, then the whole fee is standard-rated);
- School meals income for children's meals (Note: adult & staff meals/drinks are standard-rated);
- Sale of books/stationery to pupils is outside scope if it is closely related to education;
- Donations from parents/PTA/School Fund/etc (so long as nothing is given in return for the donation);
- Charity collection income;
- Staff absence income;
- Insurance claims income;
- Renewable Heat Incentive Grant from the Environment Agency for biomass boilers and solar water heating;
- Feed in Tariff scheme "general tariff" income (usually from electricity companies) for participation in the scheme (Note: income under the "export tariff" for electricity produced is standard-rated).

4. Where to go for Help

If you require further advice around the VAT treatment of invoices you raise or the income you receive, then please either consult Chapter 16 (VAT) of the [Schools Finance Manual](#), or contact the Finance Enquiry Service (FES) by using the form on the [cyps.info site](#).

If you require guidance on how to process your invoices, please contact the FMS helpline by emailing fmshelpline@northyorks.gov.uk

Lucy Milner
VAT Officer
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VAT reduced rate

Guidance for Schools

In the Chancellor's Budget in early March 2021 it was announced that the reduced rate would be **extended until 30th September 2021**. Following this there will be an **interim reduced rate of 12.5% for the six months from 1st October 2021 to 31st March 2022**. The reduced rate will be removed in full, with the **20% being fully reinstated on 1st April 2022**.

The guidance below sets out how the temporary rate may affect schools (both in terms of supplies that they make and supplies they receive).

1. Hospitality

The 5% rate will apply to sales of:

- Hot and cold food and non-alcoholic beverages **for consumption on the premises** on which they are supplied
- Hot take-away food and hot take-away non-alcoholic beverages for **consumption off the premises** on which they are supplied

In the context of schools, examples of services that would fall under the 5% rate would include:

- meals served to 'non-pupils' in school canteens;
- purchase of meals during school trips.

However, the 5% rate will NOT apply to the following:

- any supplies of food and drink that are supplied as part of a supply of catering services for consumption off-premises remain standard rated. This means that **hot delivered food** (which is a supply of catering) **will remain standard rated**.
- And any supplies of **cold food and beverages** that are **taken away** from the catering premises to be consumed elsewhere, will remain at their existing **zero-rate**.
- Meals sold to **local authority school pupils** will continue to be outside the scope of VAT.

2. Accommodation

The 5% rate will apply to the following accommodation supplies:

- sleeping accommodation in a hotel or similar establishment
- holiday accommodation

- caravan pitches and associated facilities
- tent pitches or camping facilities

From a school's perspective, this temporary 5% rate would apply to guest accommodation while on a school trip, for instance. The supplier of the accommodation should be aware of the reduced rate, and must apply it to their invoice.

3. Admissions to attractions

Admissions to 'attractions' will be subject to the 5% reduced rate unless they are already subject to the 'cultural' VAT exemption. The cultural exemption would take precedence where it applies.

Attractions include:

- Theatres, cinemas and concerts
- Circuses, fairs and amusement parks
- Museums, exhibitions and zoos
- Similar cultural events and facilities

The supplier of the attraction should be aware of the reduced rate, and must apply it to their invoice.

If there has been a change of VAT rate between the sale of the ticket and the date of the event, there are special tax point rules which may apply. This may mean that the reduced rate is not applied to the invoice. If you require some further advice around this, please see the 'help' section below.

4. Where to go for Help

If you are unsure whether you have been invoiced correctly by a supplier, or if you require advice around which VAT rate to use for the supplies your school makes, then please contact the Finance Enquiry Service (FES) by using the form on the [cyps.info site](https://www.cyps.info).

If you require guidance on how to process your invoices, please contact the FMS helpline by emailing fmshelpline@northyorks.gov.uk