

VAT Guidelines

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NB. Any reference to the standard or other rates of VAT is dependent on the rates in force as set by the Chancellor of the Exchequer.

Introduction

VAT is a broadly based tax on general consumer expenditure and is charged upon the sale of goods and services made in the course of business by taxable persons (VAT registered entities). The basic feature of the tax is that VAT registered organisations must charge tax at the standard rate (currently 20%) on supplies of goods and services unless those supplies are the subject of specific relief contained in the law. The VAT Act 1994 provides for two forms of relief, ZERO RATING e.g. books, children's clothes, and EXEMPTION (applicable to eg financial services, insurances, burials, cremation and funeral services, medical services and education provided by an 'eligible body'). The LSE is an eligible body. There is also provision for a reduced rate of VAT at 5% on certain goods and services (principally on the supply of fuel and power to domestic households/ university halls of residence and certain specified construction services).

The majority of organisations supply goods and services which are either standard rated (20% is added to the VAT exclusive price) or zero-rated (0% VAT is added to the VAT exclusive price). Such supplies are called "taxable supplies" as the zero-rate qualifies as a positive rate in VAT law. When such organisations are making only "taxable" supplies (the majority of businesses), they can recover the VAT that they have suffered on their business purchases, so that the end result is that they are both buying and selling at prices that are net of VAT.

The majority of the supplies that the School makes are supplies of education, and research. These supplies are mainly VAT exempt and non-business supplies respectively. There are special rules relating to deductibility of VAT suffered by an organisation making such supplies, which means that the School cannot recover the VAT incurred on the majority of its expenditure on goods and services: the full cost including VAT will therefore, in most cases, represent a direct cost, ie a VAT-inclusive charge to the relevant School budget.

However, certain supplies which the LSE makes, such as rentals of some buildings (on which the LSE has exercised an option to tax), vacation lettings to visitors, consultancy, bar sales and staff/non-student catering are standard rated and therefore subject to VAT at 20%. Other supplies e.g. academic journals and publications are zero-rated. These make up the main taxable supplies made by the school. The VAT that is incurred on the purchase of these goods and services

directly related to these activities can be recovered from HM Revenue and Customs (HMRC) in full. (The VAT is posted on Aptos by code R for recoverable).

When the VAT on a purchase invoice is recoverable in full, the budget holder must ensure that this is clearly indicated by writing "VAT Recoverable" along with the budget code and authorising signature on the invoice. The Aptos accounting system will post that VAT element to the VAT control account so that only the "net" figure is charged to the relevant budget.

The School can recover a percentage of the VAT incurred on its overhead expenditure i.e. that which relates to a mixture of non business, taxable and exempt supplies, through its VAT Partial Exemption Scheme, but the income from this accrues centrally and is included in School general income.

An oft-heard comment in relation to VAT is "Higher Education is exempt". What this actually means is that the fees charged to students are not subject to the addition of VAT. It is very much in the interest of Universities that this situation does not change as the UK HE Sector's international competitiveness would otherwise be weakened. However there is a downside to the exempt status of tuition fees, which is that the VAT suffered on the purchase of goods and services to enable the teaching and non-business research to be performed cannot be recovered. The School is therefore paying VAT on certain items of expenditure e.g. premises, including refurbishments, heat, light, computer equipment, professional fees etc., with only limited recovery of the VAT cost.

We should therefore ensure that wherever possible we obtain the reduced rate of VAT or no VAT chargeable reliefs available on supplies received wherever possible. An example of this is ensuring and monitoring that the reduced rate of VAT applicable to fuel and energy supplies is charged by suppliers where allowable. The reduced rate of VAT (5%) is applicable to heating and lighting when a building is used for qualifying Residential or Non-Business Charitable purposes for 60% of the time or more; (All Student Halls of Residence qualify). Another example is that because we are a charity the LSE does not have to pay VAT on advertising services it receives; a signed declaration is sufficient for the supplier to zero-rate advertising supplies. (NB: the supplies must be made to the LSE and not its subsidiary trading companies, as these are not charities and do not qualify for zero-rating relief.) Where the School receives the services of Consultants, Lawyers, Accountants, Data processing and other similar services from outside the UK, then under the Reverse Charge rules, the School has to charge itself VAT on these services. These rules are designed to stop UK businesses from avoiding VAT by obtaining all their legal and accounting services from abroad.

N.B. The reverse charge rules described above do not apply to services acquired which are put exclusively to private use of the LSE or its staff.

When goods, e.g. computers or CDs are imported from another EU Member State, they may appear to be VAT free but under EU Legislation, the School has to charge itself VAT on those items. This VAT charged is then recoverable according to the rules explained above. Any VAT paid over to HMRC will be charged to the relevant School budget. When goods are imported from outside the EC, Import VAT and

Duty is charged at the port of entry and collected by HMRC using a Trader Unique Reference Number (TURN). The Import VAT and Duty is automatically collected and details of all importations are received in the Finance Division each month. If large value (exceeding £1,000) or second hand items are being imported it is important to contact Rudy Ghosh, LSE's Group VAT Manager on ext. 6268.

There are additional VAT reliefs for registered charities. The school is a registered charity.

The main reliefs available through charitable status are:

1. No VAT is payable on advertising services procured by the School.
2. Any supplies of training provided by a trading subsidiary, which is not an "eligible body" to overseas government employees engaged solely on the sovereign activities of that government.
3. The LSE is allowed to Zero-rate sales of donated goods.
4. A raft of construction services reliefs relating mainly to the new construction of a building which will be used for more than 90% non-business or residential use, and alterations and repairs to listed buildings, as well as the construction of facilities solely for the use of the disabled and installation of some energy saving materials within certain qualifying buildings.
5. No VAT is due on imported works of art.

The Finance Division are responsible for submitting quarterly VAT returns to HMRC and liaising on all matters with which they are concerned, including the reporting of Cross Border sales and purchases (goods and services), Registration for accounting for VAT in foreign Jurisdictions, Import VAT, Import Duty, Excise Duties, Climate Change Levies, Stamp duty, Land Fill Tax, Insurance Premium Tax, and Customs issues. Corporation Tax and PAYE, National Insurance Contributions, Withholding Tax and Double Taxation issues, previously dealt with by Inland Revenue are also handled by HMRC following their reorganization with HM Customs and Excise.

New business areas opening up in the School may have VAT implications. VAT advice on new areas of activity should be obtained from Rudy Ghosh, VAT Manager, Room LRB502 (ext.6268) or email r.ghosh1@lse.ac.uk

VAT partial exemption in a nutshell

The School has recently (March 2012) entered into a combined Business/Non Business and Partial Exemption Special Method (PESM).

VAT incurred on costs relating to Non Business (Grants and Donations) income is not recoverable. A further restriction for Non Business use is made for general overhead VAT (used for both Business and Non Business purposes), which leaves an amount of VAT known as Non Attributable input tax. This Non Attributable input tax then falls to be apportioned for the School's Partially exempt usage thereof.

The basic principle of such a PESM is to provide a mechanism for businesses which make non business, taxable (supplies attracting VAT at 20%,5% or 0%) and exempt

supplies are required to stream or allocate the VAT on their business purchases in the following ways:

VAT on purchases directly related to Non Business outputs= 100% irrecoverable Aptos N coded

VAT on purchases directly related to taxable outputs = 100% recoverable Aptos R coded

VAT on purchases directly related to exempt outputs = 100% irrecoverable Aptos S coded

VAT on purchases which cannot be directly related to either business, non business, taxable or exempt outputs (residual or "pot" VAT = partially recoverable), also Aptos S coded

(Where no VAT is charged on a supply to the LSE, Aptos code E is applied).

The portion of VAT on general university overheads which is recoverable is determined at the LSE using a Specially Agreed Method based on usage of the input tax. This Method is called a TRAC VARIANT Method, as it is based on TRAC reporting principles.

The overriding rule is that VAT should wherever possible be directly attributed to either non business, exempt or taxable supplies, leaving only the remaining Non Attributable VAT ("Pot") to be apportioned first for Business use and then for Taxable use .

Special treatment for certain sectors and tunnels have been negotiated with HMRC which are allowed to operate a generic method of apportionment. Input tax is allocated by the VAT Manager to such sectors and the sector-generic recovery rate method agreed with HMRC. Examples of where VAT suffered on costs is treated as a separate sector are:

- a. A capital project, such as construction costs relating to the Centre Buildings Project,
- b. Overhead costs incurred at individual Halls of Residence.
- c. Catering services

Student residences

LSE is a University and is therefore deemed to be an 'eligible body' by Customs & Excise.

When we supply education to our students, because we are an 'eligible body', our closely related supplies of goods and services, e.g. catering (excluding alcohol) and accommodation to our students, are VAT exempt. This means that there is no VAT on our supplies of catering and accommodation to our students, including Summer School students so long as the invoices are in the name of LSE (and not LSE LETS), and go through the LSE accounting records.

Vacation lettings to visitors

As we are not providing education to our vacation visitors, these supplies will be VATable at the standard rate of VAT of 20%. For corporation tax reasons these supplies should be routed through LSE LETS.

The VAT raised on visitor income is processed directly to the School's VAT Output tax account through a system known as OPERA.

On an exception basis some vacation supplies can be treated as being VAT exempt. When a supply is made by one 'eligible body' (LSE) to another 'eligible body' (e.g. another UK educational establishment) for the direct use of the customer's students then the supply can be treated as being VAT exempt but must be routed through LSE and not LSE LETS as LSE LETS is not an 'eligible body'. If a customer claims to be an 'eligible body' and asks for their accommodation and catering to be VAT exempt then permission must be obtained from r.ghosh1@lse.ac.uk in the Finance Division before exemption is agreed as there are penalties for making an incorrect judgment.

NB: Summer School students are receiving education from LSE and therefore their accommodation will be VAT exempt and should be routed through LSE and not LSE LETS.

Conferences

It is important when quoting and accounting for conferences to ensure the correct VAT element of the supply is identified as this affects bottom line profits and can represent the difference between a prospective client using our facilities or those of an alternative provider.

Conference invoices should be split to show how much is charged for Room Hire, Accommodation, Equipment Hire, Refreshments, and Meals. VAT should then only be charged on those elements attracting VAT, described below:

- The Room Hire element of the invoice is exempt from VAT
- The Equipment Hire element is VATable (standard rated)
- Incidental refreshments such as tea and coffee with biscuits may also be exempted from VAT when charged at an inclusive rate.
- Accommodation element is VATable (standard rated).
- Meals are VATable (standard rated)

N.B. If there is an "option to tax" (election to waive exemption) which is binding on the property (We do not have this situation applying to any Halls of Residence at present, with the exception of the small area occupied by a retail unit at Holborn Halls of Residence, but we do have this applying to Mobil Towers 1,2 and 3 and Sardinia House), then Room Hire and incidental refreshments would be standard rated also, because the option "bites" on those areas we have elected to waive exemption (we have opted to tax) and overrides the exemption.

Halls bars

All hall bar income is VATable (standard rated) and the VAT element of 1/6th (ie 20/120) should be declared as output VAT.

Miscellaneous income

The following income is VATable (standard rated):

Car parking
Vending machines
Laundry
Telephone
Fax
Photocopying

The VAT element of 1/6th (ie 20/120) should be declared as output VAT.

Fuel and power

Supplies of fuel and power to a building that is used primarily for student residential accommodation qualifies for the reduced rate of VAT of 5%. If the building is used as student accommodation for more than 60% of the year then its primary use is deemed to be residential.

Input tax

Where VATable supplies are being made, eg vacation lettings, hall bars, miscellaneous income etc the School is allowed to recover all of the input VAT on the purchase of goods and services used in making those supplies.

When the VAT on the purchase invoice is recoverable, the budget holder must ensure that this is clearly indicated by writing 'VAT Fully Recoverable' along with the budget code and authorising signature on the invoice. The Aptos accounting system will post the VAT element of a VAT inclusive purchase costing £120.00 by sending (debiting) £20.00 VAT to the VAT input tax account, so that only the net figure (£100) is charged (debited) to the relevant account.

Budget reports should be checked to ensure that the VAT element has been correctly treated.

LIBRARY

Originally based on a Meeting with Arthur Andersen and Val Straw in 1999. Updated following meeting with Library staff in March 2004, updated again in May 2008.

Library Photocopying Income

Via coin machines. Mainly students photocopying books. Treat as VAT exempt as it relates to education/students.

Photocopying for UK customers should be VATable.

Photocopying for overseas customers should be zero-rated if the photocopies are to be exported.

Phonecards/Pens/Bags

Treat as VATable. Split out the VAT element of 1/6th when the cash is banked and declare as output VAT.

Course Packs- Bound

These are zero-rated publications.

Fines/Lost Books

These are Outside the Scope of VAT as compensation payments.

Library Admission Fees

This is use of library facilities rather than book hire and is treated as VATable. Split out the VAT element of 1/6th to the VAT control account.

Royalties

UK Royalties are VATable (standard rated).

Overseas Royalties are zero-rated as the place of supply is deemed to be in the overseas country.

Donations

Donations with 'no strings attached' are non-business, and outside the scope of VAT.

Room Hire

Normally treat as VAT exempt but equipment hire will be VATable.

NB. If LSE has opted to tax the building in which the room is located then VAT must be charged. Mobile Towers 123, Peacock Theatre, Sardinia Hse, White Horse Pub and the retail unit in High Holborn have options to tax which apply.

Reverse Charges on Provision of Information from Overseas

Services of consultants, lawyers, accountants, and other similar services e.g. data processing and provision of information from overseas are subject to the reverse charge. LSE must charge itself VAT on these services. This legislation is designed to stop UK companies from avoiding VAT on legal/accountancy advice etc by buying all these services from abroad.

Copies of purchase invoices from overseas suppliers for data processing/provision of information etc should be sent to Rudy Ghosh in the Finance Division so that the relevant library budget code can be charged with VAT at the end of the VAT quarter.

Books

The purchase of books is zero-rated.

CD's

CD's bought from UK suppliers will be standard rated.

CD's bought from outside the EU will be subject to normal import duties.

CD's bought from within the EU will not be subject to VAT at the port of entry but VAT will have to be accounted for on the quarterly VAT return in a similar manner to reverse charges. This is known as 'acquisition tax'. Copies of purchase invoices from EU suppliers for CD's should be sent to Rudy Ghosh in the Finance Division so that the relevant library budget code can be charged with VAT at the end of the VAT quarter.

Catering

Supplies of catering to students will be VAT exempt but supplies to non students will be VATable (standard rated). However, where VAT is charged it will be possible to recover the input VAT in full on any related purchases.

Consultancy

Miscellaneous consultancy to external bodies should be VATable. Examples include cataloguing services, advice, library services, IT support etc.

IBSS project

Editorial Fees

LSE raises a sales invoice which is VATable. IBSS project income is a combination of VATable (standard rated) income charged at 20% and zero-rated income charged at 0%, and therefore all of the VAT on related purchase invoices can be recovered.

UK royalties

Suppliers, e.g. Taylor & Francis tend to use the VAT self-billing arrangements. This income is VATable. A cheque and a statement splitting out the VAT element is sent to the LSE. The VAT element needs to be banked declaring it as output tax to the VAT Output tax account (1-ZAU-X808-76003)

Overseas royalties

This is a supply of intellectual property rights and the place of supply is deemed to be the overseas country. This supply is effectively zero-rated.

Overseas sales of CD Rom

Treat as zero-rated as income from USA, and goods are exported; retain proof of export.

Online service

Provision of on-line information services.

UK Universities and other UK customers are VATable (standard rated).

Customers outside the EU e.g. Australia, USA are zero-rated.

Customers within the EU apply the 'business test' - if the customer has a VAT number treat as zero-rated, if not e.g. private individual, Public Library then treat as VATable (standard rated).

ESRC grant

Non Business Income – VAT on related costs is irrecoverable.

Post Framework 7 EC grant income.

Non Business Income – VAT on related costs is irrecoverable.

INTER VAT GROUP SUPPLIES AND IDN's

The LSE "VAT GROUP" consists of:

1. THE LONDON SCHOOL of ECONOMICS
2. LSE Enterprise LTD
3. LSE LETS LTD
4. LSE ASIA LTD

Any interdepartmental supplies or supplies from one VAT GROUP Member to another are outside the scope of VAT, and no VAT is chargeable.

For input VAT (VAT on related purchases) purposes, the ultimate use of the goods determines the deductibility.

"LOOKING THROUGH THE VAT GROUP"

If a telephone bill is invoiced to central admin, and an IDN is raised to LSEE Ltd for its portion of the bill, the correct treatment is to reclaim the VAT in full on the value of the supply which relates to LSEE Ltd. This is because the VAT incurred on the purchase is directly related to the taxable onward supplies which LSEE Ltd makes. (LSEE Ltd is a fully taxable entity and enjoys 100% recovery of VAT it suffers on purchases, whereas the School is a partially exempt entity for VAT purposes.) In this way we are allowed to look through the group when determining deductibility of VAT suffered by the School's VAT Group.

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