



not for profit | VAT and academies

the team



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who should read this?

Any academy school bursar, head teacher, governor, accounting adviser to academies, computer consultant working for academies, equivalent personnel in any school considering conversion to academy status, auditors of the above.

executive summary

With effect from 1 April 2011, the VAT position for academies is dramatically changed under rules whereby academies can reclaim VAT on costs associated with educating their pupils, rather than relying on grant funding to cover VAT costs. As excellent as this may seem, the devil is in the detail, which is discussed below. At the time of writing, not all practical issues relating to this development had been clarified or fully encountered.

the change in academy status

As many school bursars will be aware, local authority schools have effectively had the ability to reclaim VAT on their expenditure by channelling that expenditure through the local authority. Local authorities have an ability to reclaim VAT on all non-business activities, which includes state education. Schools outside the ambit of local authorities have not, until 1 April 2011, had the capacity to do the same.

This changed for academies with effect from 1 April 2011. Changes to the VAT rules allowed academies to behave as though they were local authorities. Instead of being required to fund all of their expenditure inclusive of VAT (and to seek grant funding to cover this cost) they will be able to reclaim VAT through one of two mechanisms (discussed below).

restrictions to claim

Despite this, there are circumstances where some of the VAT on costs cannot be reclaimed. Whilst it is clear that all VAT on costs used for educating the pupils can be reclaimed, where costs are used either wholly or partly for activities beyond this, further conditions apply to allow any of that VAT to be reclaimed.

That particular VAT can only be reclaimed if it leads to the making of “taxable supplies”. These are supplies to which VAT has to be added when making a sale to others. It also includes supplies made at the “zero-rate” such as sales of books and magazines.

Not all supplies are taxable in this sense. Schools often make exempt supplies. Such supplies can include letting classrooms to other organisations or running a members’ sports club within the school.

Where exempt supplies are made, some of the VAT incurred on expenditure will not be recoverable, and must be added to the projected cost. The way in which an academy will determine the proportion of VAT on its costs that has to be allocated to these exempt activities is potentially complex, and involves the need to deploy a “partial exemption method”. Bursars who have worked in other charities will be familiar with “partial exemption” and all its variants. To others, it will open up a world in respect of which they will need to take full professional advice.

boarding pupils

This issue will only affect a minority of academies. In the case of boarding schools, boarding accommodation fees are usually charged. In the independent school sector, such fees are exempt from VAT which means that the VAT on costs of running the boarding houses, maintaining them, and the relevant proportion of the school’s overheads, are not recoverable through the VAT return. However, it is not entirely certain that this is true of academies. It is a matter on which we at haysmacintyre are trying to secure a view from HMRC. HMRC policy for state schools in general is to treat incidental education income as not creating a business activity. However, whether that is meant to cover boarding fees, as distinct from, say, payments for school dinners, is not entirely clear. We will provide updates as appropriate.

how do I make my claim?

The majority, if not all, academies will register for VAT. They will register with effect from 1 April 2011, or from the date they become academies, if later. Those schools that have been academies prior to 1 April 2011 should treat all costs invoiced to them before April as covered by the VAT grant, and all costs invoiced to them from 1 April onwards as being potentially subject to VAT recovery in the VAT returns. VAT returns usually cover a period of three months. However, since academies will generally make repayment claims, they may apply to HMRC to be put on to monthly returns. This will expedite cash flow, albeit at a slight increase in administrative effort.

The VAT returns also record taxable supplies made, on which VAT is then owed to HMRC.

The original information from HMRC indicated that a small minority of academies would not register for VAT, but would receive their VAT refunds in a manner similar to a Parish Council. No further elaboration has been made on this. However, we understand informally that such claims can be made on an annual basis. Clearly, this is much less satisfactory from a cash flow point of view than submitting quarterly, or even more, monthly returns to HMRC.

Furthermore, there is no information as to how quickly HMRC will process claims made outside of the VAT registration system, whereas there are constraints and rules upon HMRC as to how quickly to process a claim made on a VAT return.

This then raises the question as to which schools qualify for VAT returns and which do not. It seems certain that any school that makes any level of taxable supplies has the ability to insist upon VAT registration in the conventional way. It seems equally likely that any school which makes no taxable supplies whatever will have to adopt the annual or parish approach. That said, it would be an easy matter for any school to make a low level of taxable supplies even if only to bring it within VAT registration. What is still unclear is as to whether any school which makes taxable supplies but below the current VAT registration threshold of £73,000 is required nonetheless to register for VAT and account for VAT on the supplies, or may avoid that by adopting the annual/parish approach. It seems unlikely that that is possible, but we will confirm more fully at a later stage. If it is possible, it would allow a school to avoid paying VAT on taxable activities which fall below the VAT threshold while still reclaiming VAT in regard to education pupils.

VAT registration process

If you are an academy with effect from April 2011 and have not yet applied for VAT registration, subject to the above points, we suggest you do so immediately. It takes some weeks for the process to be completed, so you will be best advised to try to speed it along by making the application as soon as possible.

VAT grant situation

We understand from our general enquiries that a "VAT grant" will continue to be paid up until the end of August, but with the expectation that the element of the grant which involves VAT on costs falling after 1 April 2011 will be clawed back once the school provides the calculation of the sums it has claimed through VAT returns. Thereafter, there appears to be no suggestion of a VAT grant being allowed in order merely to bridge cash flow, and schools will have to project the cash flow impact of its expenditure arrangements.

understanding obligations concerning supplies made

Schools, whether or not academies, often make supplies which are subject to VAT, and many schools have been registered for VAT for the sake of making those supplies. Nothing particularly changes on that point following the academy status VAT change, except of course that the supplies will be included on a VAT return which otherwise allows for high levels of VAT recovery on general costs. Any academy that is unsure of the status of the supplies it makes should obtain specialist advice.

charitable VAT reliefs on purchases

None of these rules change the familiar rules for not being charged VAT on certain purchases which are made by charities which operate state schools. Again, it is important for detailed professional advice to be obtained in any such circumstance.

what haysmacintyre can do for you

haysmacintyre's VAT unit is at the forefront of dealing with all educational matters, and has a recognised practice in state schools of all kinds. Our large practice in Catholic and Anglican religious organisations has also given rise to substantial involvement in large consortia of academies. This puts us in an excellent position to provide you with the VAT assistance you need in order to operate the new academy VAT rules.

about haysmacintyre

haysmacintyre, Chartered Accountants and tax advisers, comprises 24 partners and 160 staff based in Holborn, London. It provides high quality auditing and assurance, business and personal taxation, corporate finance, financial planning and other business support services.

Not for profit entities represent over 40% of our business. This includes a particular specialism in the education sector where we currently advise numerous academies, voluntary aided schools and over 100 independent schools across the UK.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in over 100 countries. Further information is available at www.haysmacintyre.com

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