

This note deals with recording VAT on petty cash claims

VAT and Petty Cash Claims

Why do we need to know about VAT?

The simple answer is that VAT charged to the council can be recovered from HM Revenue & Customs, provided we hold a proper VAT invoice/receipt. If we do not reclaim the VAT it is charged to your budget increasing costs unnecessarily by 20%. Although petty cash purchases might seem insignificant they soon add up and we can all agree that this is not good house-keeping!

What do you need to do?

In order to reclaim VAT a proper VAT invoice/receipt must be supplied with the petty cash claim that identifies what items were purchased and quotes the vendor's name and VAT number. If the till receipt does not provide all this information, ask for a VAT invoice. A vendor who is VAT registered is legally required to issue a VAT invoice to a VAT-registered customer such as the council. When goods total **less than £250** (VAT Incl) the invoice/receipt does not need to identify the VAT element separately but it must show the VAT rate appropriate for each item. Such invoices/receipts when issued by a retailer are deemed 'less-detailed' invoices.

When a vendor is VAT registered, the VAT number will be shown on the invoice/receipt, but this does not mean that all items which it sells will be subject to VAT, which is why it is important that the vendor identifies the appropriate VAT rate against each item. The current standard rate is 20%, there is a reduced rate of 5% but we would not expect many items purchased through petty cash to fall within the reduced rate. Other items such as food, books and transport are zero-rated at nil per cent. Stamps are exempt from VAT.

VAT Coding – Paper Claims

Unlike the old mainframe the SAP system does not recognise VAT inclusive sums, so you must always split the VAT between the net sum and the VAT. As there is no requirement for the retailer to split the VAT on a less detailed VAT invoice you might have to make the calculation. However, as mentioned above the retailer must show the VAT rate against each type of item sold, so you should be able to identify which items are subject to VAT. The following will explain how to calculate VAT when the sum shown is inclusive of VAT.

How do I calculate the VAT?

If the VAT invoice/receipt shows sales as inclusive it should show the VAT rate against each item, the current standard-rate is 20%. See the example below, remember when you purchase goods from a retailer the amount you pay includes VAT if VAT is due.

Item sold	Calculator	
Retail sale	£15.00	
Numbers	1	
Total sale	£15.00	VAT @ 20%

You have purchased one calculator at a cost of £15 with the VAT standard-rate shown as 20%, to work out the net value,

$$£15.00 \times 5/6 = £12.50$$

To work out the VAT,

$$£15.00 \times 1/6 = £2.50$$

You will therefore charge £12.50 to the appropriate GL budget account and £2.50 will be included in the VAT total on the petty cash monthly claim.

The VAT fraction for items at 5% is 1/21.

There may be occasions when the amounts being claimed by petty cash are subject to VAT but where the receipt is inadequate and does not show any reference to VAT, VAT number etc. On this occasion the VAT column should be left blank as the VAT cannot be reclaimed.

VAT Coding – Imprest System

The imprest system (currently used by Adult Care and parts of CAYA) works on the VAT inclusive amount. The example below shows how you would record a purchase for £1 plus 20p Standard Rate VAT. The system will then charge £1 to the relevant costcentre and the 20p to the VAT code.

Add Imprest Items

Establishment Establishment Code

Bank Total Cash Total Advance/Float Total

Date: <input type="text" value="20/02/2013"/>	Client Related: <input type="text" value="No"/>	
Client Pin: <input type="text"/>	Surname: <input type="text"/>	First Name: <input type="text"/>
Cheque/Cash: <input type="text"/>	Cost Centre: <input type="text" value="AK85000"/>	GL Code: <input type="text"/>
Vat Code: <input type="text" value="20% - Standard Rate"/>	Cheque No.: <input type="text"/>	Amount: <input type="text" value="1.20"/>

notes:

You have **320** characters remaining

General

Further guidance on Imprest Accounts may be found at Appendix 3 Paragraph 5 of the Derbyshire County Council Financial Regulations. For guidance on VAT please contact the council VAT Officer Jim Johnson on 01629 538085 or james.johnson@derbyshire.gov.uk