

Accounts Receivable

VAT Coding in SAP

We are constantly looking to improve the quality of data we enter on the SAP system and VAT codes is one area where we can improve. However, as far as AR is concerned we are responsible for deciding the correct VAT rate and therefore all staff involved in raising VAT invoices need to understand the correct VAT liability.

The basics

Before we can decide what VAT code to use in SAP we have to be sure that a supply has taken place, if there is no supply then any income received is non-business and will default to AN.

What is a supply

A supply is where the Council agrees to do something for someone else and in return that person pays the Council, usually in money but sometimes in kind. Once we are satisfied that a supply has taken place we then have to decide whether VAT is due and at what rate.

VAT rates

The standard-rate is 20% and in SAP is coded AA.

The Council undertakes tasks on behalf of many different organisations, including other councils, academies, charities, etc. Each individual supply has to be looked at in its own distinctive feature but as a general rule the following types of activity supplied to other bodies will be standard-rated,

- Construction services (but not new build charitable and residential)
- Property management services
- Payroll services
- HR services
- Legal services
- Rent (where an option to tax in place)
- Disposal of vehicles and assets (but check with VAT Officer re cars)

We would normally expect such services to be invoiced but income also comes into the Council via cash or direct to the bank through a direct debit. Much of this is related to certain areas such as countryside parks, schools, children's centres, elderly person's homes, libraries etc.

Some income is standard-rated, this includes,

- Off-street parking
- Retail outlets
- Adult and visitor meals at schools

However, the Council also receives cash for services that are either exempt or non-business

Exempt income

Exempt income falls as A9 in SAP, many people code it incorrectly to A0. The items that fall into this category include,

- Rents (where no option to tax)
- Room lettings
- Sale of the DCC Estate (except where an option to tax in place)
- Fees for Adult Education courses
- Education and vocational training courses

The exemption includes most business units and factory workshops **but if you are unsure of the VAT status you must ask the VAT Officer to confirm.**

Other areas where the exemption can apply is the secondment of teaching staff to other establishments such as universities but they must be teaching for the exemption to apply.

Zero-rated income

ZR income falls as A0 in SAP and should be used sparingly. Sales of books and publications and passenger transport are the most common areas where this will apply – **remember please do not use A0 as a default for nil VAT**

Non-business income

NB income falls as AN in SAP. It basically all those areas where a supply is made but is not deemed business or there is no supply such as grants received.

Inter-departmental charges are never subject to VAT and we do not charge the Derbyshire Fire & Rescue Service and Peak District National Park Authority VAT – they are both part of our VAT registration.

Draft VAT Guide

The attached schedule forms part of the draft VAT guide and covers many of the situations that local authorities get involved with, it can't cover everything **so if in doubt please ask the VAT Officer.**

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