



# VAT considerations – Academies

March 2023

**The rules around VAT recovery for academies are particularly complex. So, awareness and knowing when to seek advice can help avoid any unnecessary VAT costs. Below are some of the key issues we think you should be considering**

## 1. Business/non-business split

- Is your academy considered to have both business and non-business activities for VAT purposes? If so, this will impact on its entitlement to recover any VAT incurred.
- Further, if you are undertaking a business/non-business apportionment has your academy considered how it is calculating the split, as this will affect whether it is deductible? Is a values-based method giving a fair and reasonable result? If not you may wish to consider the use of an alternative method?

## 2. Partial exemption

- Are you 'partly exempt' for VAT purposes by virtue of making both taxable and VAT exempt supplies? If so, is your academy undertaking a partial exemption calculation to reflect any VAT bearing costs, which relate to a mix of taxable and exempt supplies?
- Is there a Partial Exemption Special Method (PESM) in place? If so, has it been agreed with

HMRC, and has it been reviewed or updated to reflect any changes within your organisation?

- If a PESH is in place, could it be made more efficient (e.g. by increasing recoverable input tax or reducing the time taken to perform the calculation)?
- If a PESH is not in place, have the potential benefits of this been considered?
- Is your academy considering if the amount of exempt input tax is below the de-minimis limits\* which could result in a more favourable VAT recovery position?

## 3. Capital Goods Scheme

If your academy has any assets which fall under the Capital Goods Scheme (i.e. a special regime which requires you to consider use and corresponding VAT recovery of capital assets above a certain value over a number of years), is it meeting the record keeping requirements and performing the annual calculation?

\*The de minimis limit is the threshold below which the exempt input tax is regarded as insignificant.

## 4. Land and property

- This is a very complex area from a VAT perspective and if a transaction involving land and property is structured incorrectly, it could result in significant liabilities and missed opportunities.
- If your academy is planning on entering into any transactions involving land and property, have the VAT consequences and costs been considered? For example, there may be scope for zero-rating the construction of new Relevant Charitable Purpose buildings which can result in VAT savings.

## 5. Income stream review

- We see academies considering new income streams all the time, and it is important the VAT treatment of any new income streams, and the impact of recovering VAT on any associated costs is considered in advance to minimise risk.

## 6. Sports lettings

- Does the academy let out any part of its sports facilities to a third party? If so, have you considered the VAT treatment of these supplies?

## 7. HMRC activity

- We have seen an increase in the level of HMRC compliance reviews in this sector. Officers are performing detailed reviews, analysing the treatment of income streams and also reviewing business/non-business, partial exemption and capital goods scheme calculations. If you have any concerns regarding the VAT treatment you should consider these now rather than risking HMRC applying penalties

## 8. VAT penalties

- HMRC has introduced a new penalty regime which applies to VAT periods starting on or after 1 January 2023. HMRC has replaced the default surcharge with separate penalties for late returns and late payment of VAT.
- Does the academy submit the VAT returns and make payments on time? Have you considered the impact of the recent late payment penalty?

## 9. Fuel and power

- Has the academy ensured it is being taxed correctly on supplies of fuel and power? If certain conditions are met it may be entitled to receive such supplies at the reduced rate of VAT.

## 10. Reverse Charge Supplies

- Where services are supplied to an academy by an overseas supplier are you treating these costs correctly from a VAT perspective? If not, there is a risk a VAT liability will arise in respect of any potential reverse charge.

## 11. Making Tax Digital (MTD)

- VAT registered organisations making taxable supplies under the £85,000 threshold have previously been exempt from MTD. Since 1 April 2022 all VAT registered organisations have been required to submit VAT returns under MTD. Is the organisation fully compliant with the MTD regime currently in force?
- Have you considered the benefit of tax automation to reduce the time cost of VAT compliance, reduce the risk of errors and streamline the VAT return preparation process?



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