

The following presentation was given at:

SCAF Workshop
“Investment Appraisal: What’s in it?”

Tuesday 17th November 2015
The BAWA Centre, Filton, Bristol

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VAT in MOD – What you need to know

**MOD VAT Liaison Officer
Financial Management Policy and Accounting**



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Why am I here?

- **Improve awareness of VAT treatment and coding across the costing community**
- **Increase awareness of the implications of incorrect VAT coding**
- **Explain how to get the VAT treatment right from the beginning**



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Today in brief...

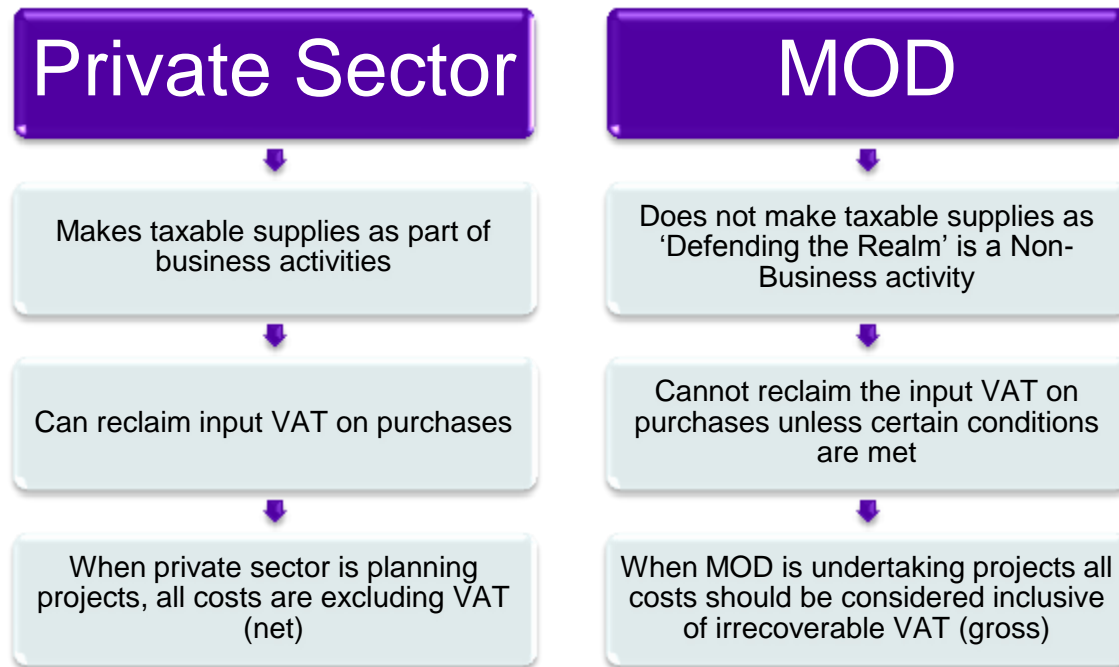
- **Background (VAT in MOD) - developments in the last 5 years**
- **The 5 steps to getting the VAT treatment correct**
- **COSVAT – what is it and what is/is not recoverable**
- **Interpreting some of the key headings in the COSVAT Direction, e.g. heading 52 professional services and heading 37 repair and maintenance of equipment**
- **Urban myths around VAT in the MOD**



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VAT in MOD vs. Private Sector

What is VAT? A 'simple tax' charged on most supplies of goods and services made for a consideration in the course of business in the UK by VAT registered businesses.





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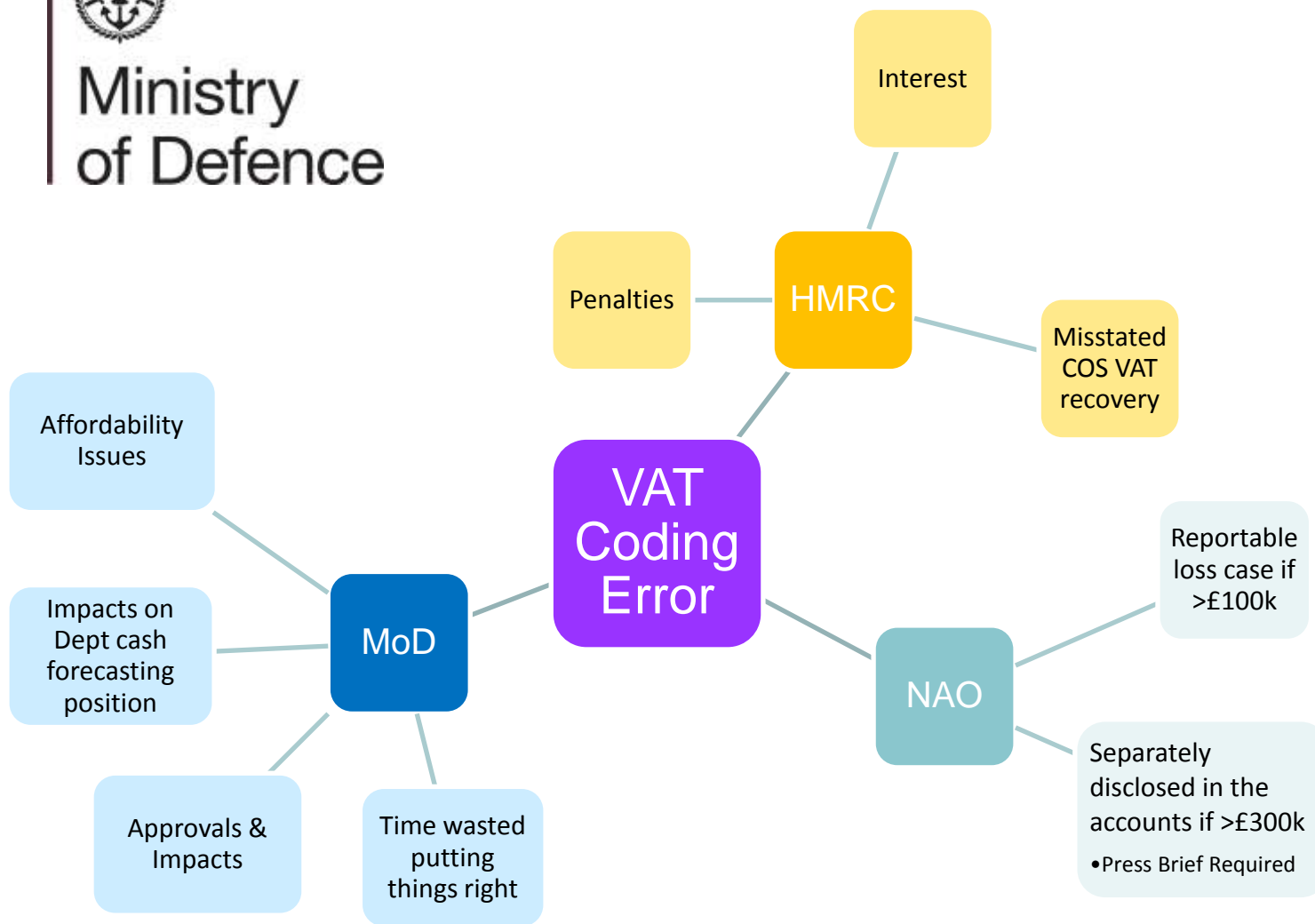
VAT in MOD and recent developments

- MOD is just another taxpayer
- Good relationship with HMRC
- Ultimately down to the supplier to establish correct VAT treatment
- Recent evidence of the inconsistent and incorrect application of VAT
- Place of supply rule changes in 2010
- Greater focus from HMRC on taxation in the Public Sector
- Introduction of HMRC compliance regime in 2012
- Increased resources in MOD centre and DE&S (2014)
- Central tax team services 7 Top Level Budget Areas
- Centres of excellence
- Contracts, Purchasing and Finance project

Implications of getting it wrong



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MOD VAT coding

- **N - exempt/supplies out of scope of UK VAT**
 - **E – EU supplies of goods or services**
 - **U – Supplies outside EU of goods and services**
 - **C – Contracted out services**
 - **J – Services supplied where the customer belongs. COSVAT recoverable – EU**
 - **K – Services supplied where the customer belongs. COSVAT recoverable – non EU**
 - **R – Supplies purchased when acting as a business**
 - **F – all other supplies of goods and services**
 - **T - MOD Sales – pre determined sales (purchases known)**
 - **S – MOD Sales – other sales (associated purchases NOT known)**
 - **P – MOD Sales – sales outside the scope/exempt from VAT**
-
- **1 = 20%**
 - **3 = 5%**
 - **0 = 0%**



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VAT Coding in 5.5 steps!

- Are we buying goods or services?
- Where is VAT chargeable – place of supply?
- Is it a single or multiple supply?
- What rate of VAT should be applied?
- Is it a contracted out service?
- ...and if so is it one of the '75'?



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Step 1 – Goods or services?

- **Important as it establishes the place of supply**
- **Goods = the right to dispose of tangible property**
- **Services = anything that is not a supply of goods**
- **Hire/rental of equipment = services**
- **Power, heat, ventilation, refrigeration = goods**
- **Copyright, patent, licence = goods**
- **Computer software? Off the shelf = goods, bespoke = services**



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Step 2 – Where is VAT chargeable?

- Is the supplier based in the UK? EU? Non EU?
- Goods – supplied in UK – subject to UK VAT (F1)
- Goods imported to UK from EU (E1)/Non EU (U1) – MOD self assessment
- Services – Business to business (B2B) – where the customer belongs (General rule)
- VAT Codes UK (F1), EU (E1), or non EU (U1)
- COSVAT recoverable UK (C1), EU (J1), or non EU (K1)



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Step 3 – Single or multiple supply?

- **Things to think about:**
- **Is there a principal supply to which all others are ancillary?**
- **Ancillary if the secondary supply is a means of better using and ‘enjoying’ the principal supply**
- **Single price charged is not decisive in indicating a single supply**
- **Ultimately decided by HMRC not MOD**



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Step 4 – UK VAT liability

- **Exempt – VAT Act 1994 Schedule 9 – 15 groups (N0)**
- **Zero rate – VAT Act 1994 – Schedule 8 – 16 groups (E0, U0, and F0)**
- **Reduced rate – VAT Act 1994 Schedule 7a – 9 (E3, U3 and F3)**
- **Standard Rate**



Step 5 – Is it a Contracted Out Service?

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- The aim of Contracted Out Services (COS) is to incentivise private sector involvement and prevent distortion to competition
- Unique to Government Departments, allows VAT to be recovered on contracted out services the MOD pays for



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Step 5.5...and is it 1 of the 75?

- **Treasury Direction on VAT recovery**
- **List of 75 services eligible for recovery**
- **Repair/maintenance**
- **Professional services**
- **Estate Management services**
- **Computer services**
- **Pest control!**



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Example

MOD has a repair and maintenance contract worth £50m for repair of helicopters < 8,000 kg max take off weight. Included in the contract are some consumable items (nuts, bolts and lubricants worth £1m). The contract is being carried out in Italy.
What is the VAT treatment and what VAT code(s) should apply?



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Answer (1)

- 5 steps
- Is it goods or services?
- Single or multiple supply?
- What rate of VAT applies?
- What is the place of supply?
- If any services are they COSVAT recoverable?



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Answer (2)

- **Is it goods or services? *Goods = right to dispose of tangible property. Services = anything not a supply of goods! On the face of it two supplies – repair/maintenance and consumables, BUT...***
- **Single or multiple supply? *Do we have one supply to which everything else is ancillary? Ancillary supply ‘a means of better using and enjoying the principal supply’. Cannot perform the repair task without the consumables and amount not material v overall value. One supply of repair services. VAT treatment of consumables follows that of main supply of repair services.***



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Answer (3)

- **Rate of VAT? Helicopters < 8,000 max take off weight so not a 'qualifying aircraft' – standard rated 20% (>8,000 kg qualifying aircraft and zero rated – 0%)**
- **Place of supply? Services is where the customer belongs, so UK.**
- **COSVAT recoverable? Yes under heading 37.**
- **VAT Code J1**



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COSVAT Issues

- Level of analysis undertaken
- RDEL = C1, CDEL = F1
- Goods = standard rated (F1), Services = recoverable (C1)
- 'we used to do it in house so it must be COSVAT recoverable'
- Project management is recoverable if supplied in isolation
- Post Design Services (PDS) is a recoverable service
- Anything with DSTL/Qinetiq is recoverable
- Joe Bloggs told me it was okay and he's 'done' VAT for xx years



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Heading 13 – Collection, delivery and distribution services

- **Couriers**
- **Rail Freight**
- **FedEx**
- **UPS**
- **Other providers are available!**



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Heading 14 – Computer Services

- **What's in?**
- **Provision of fully managed computer infrastructure**
- **Development, delivery and support of bespoke software**
- **What's out?**
- **Off the shelf software**
- **Hardware, line rental and telephony (standalone)**
- **Hire of computer consultants**



Heading 19 – Engineering services

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- **What's in?**
- **Largely manufacturing processes**
- **Engineering design services**
- **What's out?**
- **A 'man with a screwdriver'**



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Heading 37 – Maintenance, repair and cleaning of equipment

- **What's in?**
- **Equipment, plant and vehicles owned by a Dept**
- **Any of the above that are leased, provided R&M is done by a different supplier**
- **Spares consumed as part of the R&M service**
- **What's out?**
- **Spares supplied as part of a 'pool'**



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Heading 52 – Professional advice

- **What's in?**
- **Provision of advice and guidance only**
- **What's out?**
- **Delivering the solution to a problem**
- **Project Management - standalone**
- **Supply of staff (Manpower subs, etc)**



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Heading 65 - Training

- **What's in?**
- **Principally any training from an external provider - BUT**
- **Note that education and vocational training is exempt (schools for under 19s, Universities, Colleges)**



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Heading 74 - Research

- **What's in?**
- **original investigation undertaken to gain, advance or expand knowledge and understanding**
- **What's out?**
- **merely confirming existing knowledge or understanding**
- **consultancy or business efficiency advice**
- **collecting and recording statistics without also collating, analysing, or interpreting them**
- **market research or opinion polling**
- **writing computer programmes**
- **routine testing and analysis of materials, components and processes**



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Points of contact and sources of information

Points of Contact

- Finance Team within your area
- DE&S Tax Team
- FMPA Tax and Duty Team

Sources of Information (MOD Intranet)

- **HOCS FMPA VAT Webpage** – HOCS – Policy & Guidance – Finance – Tax & Duty – VAT
- **JSP 916** - MOD Tax and Duty Manual
- **VAT training courses (Basic and SME)** – FMPA website



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Questions?