

REGULATION 20: TAXATION (CURRENT)

Quick Link

- 20.1 General
- 20.2 Value Added Tax (VAT)
- 20.3 Income tax and National Insurance
- 20.4 Construction Industry Scheme (CIS)

20.1 GENERAL

- 20.1.1 **Providing Advice:** The Statutory Chief Finance Officer is responsible for advising Directors and Chief Officers, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all taxation issues that affect the authority.
- 20.1.2 **Responsibility for Tax Management:** The Statutory Chief Finance Officer is responsible for tax planning, maintaining the Council's tax records, making all tax payments, receiving tax credits and submitting tax returns by their due date, as appropriate.
- 20.1.3 **Responsibilities for Tax Administration:** Individual responsibilities for the administration of taxes should be fulfilled in accordance with [Financial Regulation Support Document 23](#).
- 20.1.4 **Accuracy of Tax Transactions:** All managers should ensure that tax transactions are:
- a) calculated in accordance with the relevant statutory regulations;
 - b) recorded at the appropriate time;
 - c) accounted for in the proper tax period;
 - d) documented appropriately.

20.2 VALUE ADDED TAX (VAT)

VAT must be accounted for in relation to purchases of goods and services by the Council (*Input Tax*) and services provided by the Council for which a fee is charged (*Output Tax*).

The Finance Act 1985 introduced penalties to improve the enforcement of VAT and a number of local authorities have been heavily penalised for not complying with VAT legislation. Relying on another person and ignorance of the law are not regarded by H.M Revenue and Customs as reasonable excuses for making errors in connection with VAT.

Information on the schedules, rates and rules in relation to VAT can be obtained from [H.M. Revenue and Customs Notice 700](#), the VAT Guide, and Notice 749 (Local Authorities & Similar Bodies). Further assistance can also be obtained from the Finance Strategy and Development Group and [Financial Regulations Support Documents 10a, 10b, 10c and 10d](#).

- 20.2.1 **Knowledge:** Directors and Chief Officers must ensure that all employees responsible for processing invoices, payments and collecting income, familiarise themselves with VAT and establish the appropriate tax treatment on each transaction they deal with.
- 20.2.2 **VAT Indicators:** The Finance Section must maintain and circulate a list of VAT indicators and their use in the Council. (See [Financial Regulation Support Document 10a](#)).
- 20.2.3 **Use of Indicators:** The appropriate VAT indicator must be shown against each financial analysis code on all income and expenditure forms.
- 20.2.4 **Alteration of Invoices:** VAT invoices must not be altered. If an amount of an invoice is found to be incorrect then either a replacement or a credit note must be requested.
- 20.2.5 **Accounting for Errors:** Individual services may be charged with any penalties incurred by the Council for errors they make.

20.3 INCOME TAX AND NATIONAL INSURANCE

Income Tax and N.I. must be accounted for in relation to payments made to employees and members (usually through the payroll system).

Information on the rates, allowances and rules in relation to Income Tax and National Insurance can be obtained from the H.M. Revenue and Customs. Further assistance can also be obtained from the Payroll Section.

- 20.3.1 **Income Tax and NI Indicators:** The Operational Finance Section (Payroll) must maintain a list of taxable and NI-able allowances in use on the payroll system for the Council.
- 20.3.2 **Collection and Transfer of Tax:** The Operational Finance Section (Payroll) is responsible for the collection of Income Tax and NI from salaried employees, and for the prompt payment of this to H.M. Revenue and Customs in accordance with their prescribed procedures and time scales.

20.4 CONSTRUCTION INDUSTRY SCHEME (CIS)

The Construction Industry Scheme must be applied in relation to construction 'sub-contractors' employed by the Council. It should be noted that under the scheme the Council is designated as the *contractor* and any firm, individual, partner or agency employed by us is designated as a *sub-contractor*, and therefore fall within the scheme.

In principle this scheme requires such sub-contractors to be registered with H.M. Revenue and Customs. The Council can be penalised if they make payments to any contractor not registered. Where instructed, income tax will be deducted from the labour element of any invoice submitted by the sub-contractors and paid over to HMCR. A higher rate of income tax may be applied if the sub-contractor is not "matched" on the HMRC system.

More information on the rules in relation to CIS can be obtained from H.M. Revenue and Customs. Further assistance can also be obtained from the Operational Finance Section.

- 20.4.1 **Status Checks:** Directors and Chief Officers must ensure that where construction and demolition works are undertaken, the sub-contractor must produce their Unique Transaction Reference (UTR)/Company Registration Number or NHI Number where applicable prior to commencement of works. They then must be registered by Operational Finance with the tax office and a verification number received prior to payment.
- 20.4.2 **Central List:** The Operational Finance Section must maintain a list of the CIS status of all sub-contractors used by the Council.
- 20.4.3 **Tax Deductions:** The Operational Finance Section must ensure that any deductions made from payments to sub-contractors are correctly recorded and paid over to the H.M. Revenue and Customs in accordance with the scheme.
- 20.4.4 **H.M. Revenue and Customs Return:** The Operational Finance Section must ensure that the monthly return is completed using the official forms and returned to H. M. Revenue and Customs by 19th of each month. Nil returns can be made as instructed by H.M. Customs and Revenues.
- 20.4.5 **Accounting for Errors:** Individual services may be charged with any penalties incurred by the Authority for errors they make.

Other Points of Reference (underline denotes a hyperlink is available)

[Financial Regulation 15: Contract and Procurement Procedures](#)

[Financial Regulation 16: Ordering and Paying for Goods and Services](#)

[Financial Regulation 17: Petty Cash and Floats](#)

[Financial Regulation 18: Payments to Employees and Members](#)

[Financial Regulation Support Document 10a: VAT Guidance Notes](#)

[Financial Regulation Support Document 10b: VAT Code Search](#)

[Financial Regulation Support Document 10c: Overview of FBC VAT Coding](#)

[Financial Regulation Support Document 10d: VAT Q and A Change of VAT Rate 2011](#)

[Financial Regulation Support Document 23: Tax Administration Responsibilities](#)

Finance Web Pages: Summary of VAT Notice 700

CIPFA Standards of Professional Practice: Taxation