

## VAT ON ELECTION EXPENSES

<b>Head of Service:</b>	Lee Duffy, Chief Finance Officer
<b>Wards affected:</b>	(All Wards);
<b>Urgent Decision?</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Appendices (attached):</b>	None

### Summary

This report seeks authorisation to use £50,903 from the Council's VAT reserve to fund the repayment to HMRC of over recovered VAT on the cost of holding elections.

### Recommendation (s)

#### The Committee is asked to:

- (1) Agree that £50,903 can be transferred from the VAT reserve to fund repayment to HMRC of over recovered VAT.**

## 1 Reason for Recommendation

- 1.1 Following an assessment of the Council's treatment of VAT on election expenses, an unbudgeted repayment of £50,903 is due to HMRC of over-recovered VAT.
- 1.2 The Council holds a VAT reserve to mitigate the impact of potential adverse VAT judgements.

## 2 Background

- 2.1 Where local authorities incur expenses for providing local elections they are permitted to recover, from HMRC, the VAT on these expenses under S33 VAT Act 1994.
- 2.2 Where expenses are incurred by authorities relating to general elections, by-elections or European elections, no VAT is recoverable from HMRC, as all expenses for national elections are reclaimed gross (i.e. including VAT) from the responsible body, e.g., Cabinet Office instead.

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- 2.3 In 2020, HMRC's Compliance team contacted all election authorities requesting information on the treatment of election expenses for the last four years.
- 2.4 When officers investigated the treatment of VAT relating to election expenses since 2016 (the statutory period under investigation), it became clear that all invoices had been processed net of VAT, meaning VAT was not only recovered on election expense claims to the Cabinet Office (or other responsible body), but it had also been recovered on the Council's VAT return to HMRC. The effect of this was that the Council had recovered £50,903 VAT from both government offices.
- 2.5 The Council has had to repay the £50,903 over-recovery to HMRC in 2020/21, and it is proposed to fund this expense from the VAT Reserve.
- 2.6 HMRC also issued a penalty of £7,635 for the error, suspended from 20 January to 19 February 2021. The suspension reflects that officers have worked co-operatively with HMRC and implemented internal controls to prevent future over-recovery. The suspension period has lapsed without incident, so the Council does not expect the penalty to become payable.

### **3 Risk Assessment**

#### Legal or other duties

##### 3.1 Impact Assessment

- 3.1.1 The Council has a legal responsibility to properly account for VAT on all transactions. An ongoing annual contract with a specialist VAT adviser is in place to help with issues relating to VAT treatment of supplies, including potential under and over recovery.
- 3.1.2 Internal systems have been upgraded so that clear notifications are attached to invoices for elections, other than local, where VAT cannot be recovered upon payment of invoices.

##### 3.2 Crime & Disorder

- 3.2.1 None arising from the contents of this report.

##### 3.3 Safeguarding

- 3.3.1 None arising from the contents of this report.

##### 3.4 Dependencies

- 3.4.1 Auditors and other external bodies have an interest in the accuracy and transparency of the Council's financial transactions and statements.

##### 3.5 Other

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3.5.1 None

### 4 Financial Implications

- 4.1 **Section 151 Officer's comments:** The Council currently holds a reserve of £250,535 to mitigate expenses relating to potential breach of our partial exemption calculation limit or assessments raised to correct errors in accounting for VAT.
- 4.2 Use of the reserve to fund the repayment of £50,903 to HMRC complies with the general purpose of the reserve and avoids a significant, unbudgeted, overspend on revenue budgets. The reserve balance will reduce to £199,632.

### 5 Legal Implications

- 5.1 None for the purposes of this report.
- 5.2 **Monitoring Officer's comments:** none arising from the contents of this report.

### 6 Policies, Plans & Partnerships

- 6.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 6.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 6.3 **Climate & Environmental Impact of recommendations:** None.
- 6.4 **Sustainability Policy & Community Safety Implications:** None.
- 6.5 **Partnerships:** Working together with central government offices, other local authorities and external advisors to the public sector supports consistent treatment of transactions and taxation.

### 7 Background papers

- 7.1 The documents referred to in compiling this report are as follows:

**Previous reports:**

- None

**Other papers:**

- None