**FMS Tax Codes and Tax Systems explained**

**Tax Codes (Purchase):**

FMS reflects different VAT rates on Purchase Invoices through the key Tax Codes listed below:

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| **Key Tax Codes:** | **Description** | **Rate** |
| PS | Purchase (input) – Standard Rate  | 20% |
| PZ | Purchase (input) – Zero Rate | 0% |
| PE | Purchase (input) - Exempt | VAT Exemption  |
| PL | Purchase (input) – Lower Rate | 5% |
| PA | Purchases - (input) - EU Services - Reverse Charge | 20% |
| PB | Purchases - (input) - Overseas services - Reverse Charge | 20% |
| PG | Finance Use Only | 100% |
| 0 | Out of Scope –Non-business  | Not in VAT system |

Please note, Tax Codes X1, X2, X3, Y1, Y2, Y3, VR and C1 are for system VAT calculations only, **please do not use.** When in doubt, please contact Finance for assistance.

**Tax Code PS Purchase (input) – Standard Rate 20%:**

It is used when we buy standard rated goods/services from a UK VAT registered supplier. We would know whether we would pay VAT from either the supplier’s invoice or the quotation we have received. If VAT is charged, then input the NET amount in the price cell. The Tax code PS is derived from the product for standard rated items. PS code automatically calculates VAT at 20% and adds it to the total costs. If Tax Code does not appear as PS, then we need to check if the product code is correct for the purchase. A new product code may need to be set up by the System Team which attracts VAT at 20%. PS code can be changed where appropriate, i.e. although the product code is PS, and we know it is supplied by a non VAT registered supplier, the Tax Code should be amended to o-outside scope. When the tax code applied does not agree with the default setting, the system generates a workflow for VAT approvers to review the Tax Code application and make amendment if necessary.

**Tax Code PZ Purchase (input) – Zero Rate 0%:**

It is used in different circumstances, i.e.:

1) When we purchase from a UK VAT registered supplier, but the goods itself is set as 0% of VAT by HMRC, i.e. basic food items (milk, bread, water etc.), books, magazines, children’s clothes, certain health and safety items, printing and binding service of an article/thesis etc. …

2) When we purchase from an overseas VAT registered supplier (from 1 Jan 2021 all EU purchases are now classed as overseas), and the goods are a business transaction –VAT is not paid to the supplier, but it is paid to the shipping agent who carries out the customs clearance on behalf of the University. (The shipping agent normally pays VAT to HMRC in order to get the shipment out of the customs as quickly as possible, and then claims VAT back from the client).

**Additional requirements when purchasing goods from overseas (this includes EU from 1 Jan 2021) you must ensure you provide the following information to the supplier/courier:**

* You should provide the supplier with our VAT registration number (GB261339762) and our EORI number (GB261339762000) as they will provide this to the Courier. We should ask them to instruct the courier to use Postponed VAT Accounting (PVA). If the courier gets in touch, we should provide the above information and again confirm the use of PVA.
* Where possible use Deliver Duty Paid (DDP) this will ensure there are no risks around the goods being 'stuck' at port and the University having to pay daily storage charges for the goods until they are cleared. If this happens the costs are met by the Department. DDP means the supplier will include the Duty charge into the quote for goods and they will pay the Duty at the port.

**Tax Code PA Purchase (input) – EU Services Reverse Charge 20%:**

When we purchase from an EU supplier, services normally under standard rate of VAT if bought from a UK VAT registered supplier. The supplier does not charge VAT, but VAT becomes the customer’s liability - this is called the Tax Shift or VAT Reversal Procedure EU Member states i.e. instead of charging each other VAT, the customer charges himself according to the VAT rate in his own country. This is to avoid market distortion due to various VAT rates in each EU Member State. As the Tax Code is derived from the product, it often shows PS code in the GL Analysis, this can be amended by the originator of the requisition, where Tax Code has not been amended to PA for such transaction, a workflow will be triggered so that the VAT approvers can look at the appropriate Tax Code application and make amendment.

**Tax Code PB Purchase (input) – Overseas Services Reverse Charge 20%:**

When we purchase certain services (i.e. electronic downloads, software licence and agent commission from anywhere apart from the UK), VAT is due to the customer’s tax authority. Again, if Tax Code shows PS, it should be amended to PB for VAT reversal. If this is not amended in the first instance by the originator, it will trigger a workflow to the VAT approvers and the tax code will be amended accordingly.

**Tax Code PE - Purchase (input) VAT Exemption:**

PE code is used in the following transaction types:

1) Goods/services purchased for medical/veterinary research.

2) Advertisement services, i.e. for staff/student recruitment and advertisement for the University’s courses/teaching/training programmes.

3) Trainings/teachings provided to the University students by eligible bodies, i.e. other universities/colleges.

4) Subscriptions to trade unions, professional bodies, postal services, health and welfare, finance and insurance etc.

**Tax Code PL - Purchase (input) Lower Rate 5%**

It is used in purchasing some goods and services specified as lower rate at 5%, i.e. children's clothes, children’s car seats, domestic fuel or power, installation of energy saving material etc.

**Tax Code PG – Finance Only 100%**

This will be used by Finance only for processing VAT only invoices from Couriers who have paid VAT to HMRC on our behalf and are now invoicing for re-imbursement of the VAT.

**Tax Code o-out of scope – not in VAT System:**

1) It is used when we buy goods or service from a non-VAT registered supplier. As Tax Code is derived from the product, i.e. commonly PS, it is essential that it is amended to O - Out of Scope so no VAT is added. If the Tax Code does not agree with the defaulted Supplier Master file (for a non-VAT-registered supplier it is O - out of scope), the transaction will workflow to the VAT approvers.

2) When we buy certain items which are not part of the tax system, statutory charges, i.e. MOT, Council Tax, TV licences, wages and salaries (i.e. non-commercial secondment), donations, grant, compensations, supplies not made in the EU etc. Again, only total amount is input into the price cell, with the o-out of scope Tax Code selected, so no VAT is added.

3) o-out of scope code is often used in internal journal transfers when there is no need to adjust the VAT element i.e. to transfer the total amount from/to a sub project with NR Tax System (NR: VAT not recoverable).

**Tax Codes (Sales)**

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| **Key Tax Codes** | **Description**  | **Area** |
| O | Sales Outside Scope of VAT | Sales - not made in the course or furtherance of business, i.e. Internal charges, sales orders sent to funders for donation, grant, cost reimbursement etc.  |
| SE | Sales (output) VAT Exempt  | Sales- including education (course, conference, vocational training, CPD course, workshop, seminar), finance, insurance etc.  |
| SS | Sales (output) Standard Rate 20%  | Sales- VAT charged on goods/services which do not fall into the other categories  |
| SL  | Sales (output) Lower Rate 5%  | Sales - including fuel and power used in homes and by charities  |
| SZ | Sales (output) Zero Rate 0% | Sales - on most food (but not restaurant or takeaway meals), children’s shoes and clothing, books and newspapers and sales to certain overseas and EU business customers for goods and services  |

When a Sales Order is raised in FMS, the tax code is generated by the Sales Product. Where there is a choice of VAT treatments (e.g. depending on whether the customer is a student or not), the appropriate product code should be selected. When a Tax Code is changed, a workflow is generated to the VAT approvers.

Invoice to an EU VAT registered customer is under Tax Code SZ (i.e. no VAT charged) provided that we have already set up the customer master file with the supplier’s VAT registration number; to EU non-VAT registered customer, it is normally under standard rate, however, exception may apply depending on the status of the customer, i.e. VAT exemption applies to the supply of goods or services to the European Union, the European Atomic Energy Community, the European Central Bank, the European Investment Bank, certain International bodies, or to the bodies set up by the Union. If you have any doubt, please contact Finance for assistance.

**Tax Systems:**

Tax Systems are used in FMS to correctly account and report on VAT to the tax authority. This is determined when a new sub project is created in FMS, based on the project funder categories (see table below). VAT recoverability is determined by the Tax system, the Tax System cell is not amendable in transactions by general users. However, if you think the sub-project has been set up incorrectly, or have a query about it, please contact Adam Greer or Nicola Green at vat.enquiries@strath.ac.uk if required, amendment can be made in FMS.

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| **Key Tax Systems** | **Funder Category**  | **Description** | **Sales**  | **Purchases** |
| FR  | Industry/Commerce  | Input VAT incurred in purchases- Fully Recoverable  | Charge customers at 20%  | Pay VAT at 20% to suppliers if charged, input VAT is coded to VAT code, not the sup-project budget  |
| NR  | Public/Charity/Governmental bodies  | Input VAT incurred in purchases – Not recoverable  | Normally does not attract VAT in sales  | Pay VAT at 20% to suppliers if charged, VAT is coded to expenditure and should be included as part of the sub-project cost |
| PR  | N/A – not directly linked to either funder category i.e. departmental/central services departmental running costs | Input VAT incurred in purchases – Partially Recoverable  | Follow the general VAT rules, check with Finance if in doubt  | Pay VAT at 20% to suppliers if charged, input VAT is coded to expenditure as part of the sub-project cost, the University recovers a percentage from HMRC. The recovery does not go back to the department.  |
| FE  | EU Framework 7  | Input VAT incurred in purchases – not recoverable from the EU funder  | Normally does not attract VAT in sales | Pay VAT at 20% to suppliers if charged, VAT is coded to FE VAT code 4299 –Irrecoverable VAT |

**Useful Contacts:**

If you have a VAT query or any suggestions on the VAT guidance notes, please contact Adam Greer or Nicola Green for further assistance in Finance - vat.enquiries@strath.ac.uk