

TAX UPDATE

Purpose

To provide an update on FCE'S compliance with the VAT project, completed in 2017.

Recommendations

To note the contents of the paper.

Forest Research

1. FR does not recover significant values of VAT on its expenditure activities, but does recover some VAT under Contracted Out Services rules where activities are deemed as non-business. Output VAT is appropriately charged on income generating activities and the level of output VAT is likely to be increased under the new MOU with the Devolved Administrations from 1 April 2019.
2. Relevant staff, including Board members, are subject to taxable expenses. The appropriate tax is paid to HMRC via the monthly payroll procedures.
3. FR's existing tax guidance is relatively new and was issued to the business following the recent HMRC compliance audits. The guidance will need to be refreshed following the implementation of the new ERP system in April 2019. FR has access to a contract for specialist external VAT advice.
4. FR submits routine monthly tax return submissions to FEE in respect of VAT and CIS to allow submission of the overall FC monthly returns to HMRC.
5. FR liaises with HMRC on a regular basis and attended an introductory meeting with the new HMRC compliance teams in June 2018.

Forest Services

6. Ben Walker (FS Management Accountant) has provided assurance that he is comfortable with FS's VAT position, which he describes as low risk, for the following reasons.
7. The VAT issue for FS is one of exception. This is because FS is classified as non business meaning we pay all the relevant VAT and don't claim any back. This means that FS pays VAT fully on the vast majority of its transactions. FS also adds VAT to any invoices, for example when we charge for our expertise.
8. We only claim VAT back through the COS system on specific statutory processes we contract out.
9. If we charge external bodies for statutory services then VAT is excluded (e.g. mandatory plant health inspections).

10. A further safeguard is provided by FEE's scrutiny of FS in preparing the FC's overall VAT return, through which FS expects FEE would raise any relevant concerns.
11. FS has raised one outstanding issue with FEE tax expertise which is how VAT income is accounted. This is not material.

Forest Enterprise

12. Output VAT is appropriately charged on income generating activities. FEE recovers significant VAT values on its expenditure activities and a partial exemption (special method) has also been agreed with HMRC to cater for activities that are exempt and therefore block 100% VAT recovery.
13. Relevant staff, including Board members, are subject to taxable expenses. The appropriate tax is paid to HMRC via the monthly payroll procedures.
14. FE's existing tax guidance is relatively new and was issued to the business following the recent HMRC compliance audits; it was updated on 1 April 2018 to reflect the new FEE Chart of Accounts. FEE has access to a contract for specialist external VAT advice. We are working with these advisors to produce targeted 'VAT Notes' (raised because an issue may not be covered by current guidelines) e.g. VAT Note 6, Publications.
15. FE submits routine monthly returns to HMRC in respect of VAT and CIS, which allows submission of the overall FC monthly tax returns to HMRC.
16. FE liaises with HMRC on a regular basis with our HMRC Customer Relationship Manager.

Resource Implications

17. Not applicable

Risk Assessment

18. Given FC's recent settlement with HMRC relating to previous errors in VAT accounting, failure to put in place, follow, and maintain compliant VAT processes in any of the FC's entities now would expose the whole organisation to serious reputational and financial risk.

Communications

19. Not applicable.

**Compiled from contributions from Meirion Nelson, Ben Walker and David Hodson
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