

VAT CHANGES SNEAK UNDER THE BUDGET RADAR

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Whilst we were all concerned with the impact of the 2015 budget on our pay packet, pension and general wellbeing, George Osborne quietly slipped in a major reform in shared service working and VAT Cost Sharing Exemption Groups.

From 1st April 2015, non-departmental public bodies and privately owned service providers will be eligible for VAT refunds on shared service working within the public sector.

What is a VAT Cost Sharing Exemption Group?

VAT Cost Sharing Exemption Groups appeared as shared service vehicles following the 2012 Finance Bill.

HMRC refers to them as CSG (Cost Sharing Groups) and just to remind you, they are made up of non-vatable and vatable public sector organisations who come together to develop shared service activities.

The sectors that probably most interest us are:

- Housing
- Further Education
- Higher Education
- Health
- Charities
- Voluntary Groups
- Some Social Enterprises

HMRC makes it clear that a key factor for CSGs is that the services they provide to their members must be 'directly necessary' for their exempt and/or non-business activities. If they are not, the exemption does not apply and the supplies are subject to normal VAT rules.

This means that if a Cost Sharing Group qualify to be exempt, then members of the group that normally cannot reclaim VAT can do so.

However up until 1st April 2015 this only applied to public sector bodies.

Until then, if a VAT registered private sector organisation joined as part of the mix in a group, they would still have to charge VAT and the other public sector partners would not be able to reclaim it.

This change was pre-announced at the end of 2014 when HMRC stated that: *'There has been no provision to refund VAT to non-departmental public bodies sharing services with their parent department or between themselves... With the expected wider take-up on shared services, the government wishes to ensure that these bodies are not at a VAT disadvantage when they enter into such arrangements... Because of competition issues, this will also include situations where they procure an eligible service directly from a private sector provider.'*¹

A number of industry commentaries suggest that government departments are expecting to save £13 billion as a result of these changes.

Further government outsourcing is also anticipated as a result

Writing in a SourcingFocus.Com article², Audrey Fearing, a partner at Ernst & Young who is involved in government and public sector tax, writes that: *'this opens the way for public sector bodies to explore innovative ways for reducing cost of delivery, by sharing back office functions, or indeed outsourcing third parties who can drive greater economies of scale.'*

In the same article, Kerry Hallard, CEO of the National Outsourcing Association added that, *'The introduction of VAT refunds for suppliers will enable many more public departments to take advantage of the cost savings and service improvements that outsourcing can provide. As a result, we expect this change to bring significant growth to the outsourcing industry.'*

¹ HMRC & HM Treasury, (Dec 2014) Overview of Legislation In Draft

² SourcingFocus.Com, 19/03/2015