

Annex 6 to the TRAC EC-FP7 Guidance

The exclusion of irrecoverable duties from indirect costs

The following guidance covers irrecoverable duties, not irrecoverable VAT. It only applies to costs to be excluded from the indirect cost total allocated to Research; these could relate to duties on items coded as an overhead (indirect cost) or those coded as a direct cost on research grants or contracts.

Principles

The following principles were followed when preparing this Guidance:

- that irrecoverable duties must be excluded from indirect costs.
- that this is necessary where they are identifiable on invoices paid by the university. Where they are not separately identified on invoices they need not be estimated or excluded.
- that materiality is not a relevant concept.
- that, in line with the method used for irrecoverable VAT, where universities' accounting (coding) systems do not separately record duties from the main purchase (even when it is separately identified on the invoice), an indirect exclusion method can be used to identify these, provided that it is based on a fair and auditable method which can guarantee the reliability of the results.

Duties to be excluded & methods of exclusion

The following is a comprehensive list of duties that might be paid by a university. A statement is made against each to indicate whether it is identifiable on purchase and therefore needs to be excluded. A method is then suggested for their exclusion.

i) Customs Duty on Imports

Customs duties are levied upon the arrival of goods from outside the EU when they are entered for home use within the community.

Imports of goods are subject to a rate of duty which in many cases is zero but typically when applicable is in a range of up to 10%. For certain goods under certain situations, the rate of duty may be reduced to zero. Also, specific reliefs are available in particular circumstances such as the importation of scientific instruments and apparatus, and their spare parts and tools, by qualified bodies, provided they are to be used for non commercial scientific research or educational purposes.

This duty should be excluded from the indirect cost rates. This could be done by a university in a number of ways:

Example 1:

- a) taking advice from professional purchasing experts to ascertain an estimate of an average percentage import duty rate that could apply to the University's imports in general.
- b) identifying the value of imports from non-EU countries. This could be done by examination of the country of origin of suppliers, the characteristics of the goods, and the amounts paid. The value identified will need to be adjusted down for values that have been booked directly to research projects or to residential accommodation.
- c) multiplying (a) by (b) to derive the import duty value (c) for exclusion from indirect costs.
- d) allocating this exclusion value (c) for Teaching, Research and Other using a non-pay cost driver.

Example 2:

The following method could be used for HEIs that hold a Duty Deferment Account with HM Revenue and Customs by which the payment of import tax is deferred.

- a) refer to your Indirect Tax Manager for details from the weekly Supplementary Periodic Deferment Statement issued by HMRC. The 'Supplementary Periodic Deferment Statement details the 'duty and the VAT' relating to each separate importation that has been booked to the deferment system during each month. The duty values can be totalled for the year and should represent the majority of the duty that has been incurred.
- b) a further analysis of the account postings of the duty amounts may enable the HEI to ascertain what portion of the duty incurred relates to direct research projects, residential accommodation, to leave a duty balance. This duty balance can be excluded from the indirect costs in relation to Teaching, Research and Other. A non-pay cost driver could be used to perform this allocation.

ii) Excise Duty on specified goods which in the UK include ethyl alcohol, hydrocarbon oils and tobacco.

In universities this is represented by Fuel Duty (on petrol and diesel)

Fuel duty on university vehicles is rolled up in the pump price. It is not separately identified on invoices and therefore need not be excluded.

iii) Duties on specified activities such as using a motor vehicle on the road, depositing waste in a landfill, taking a scheduled air flight, etc.

Vehicle Excise Duty

This is often recorded separately (e.g. as road fund licences) and thus can be easily identified and excluded. If not recorded separately an estimate should be made. The costs paid on non-residences vehicles should be removed in line with non- residential estates costs.

Climate Change Levy CCL (levy on fuel and power not eligible for the reduced, 5%, domestic rate of VAT).

This is probably one of the largest duties on specified activities, although in some universities the majority of fuel and power costs qualify for the reduced rate of VAT (i.e. use for student accommodation, and use for non-business purposes, are both eligible for the reduced rate). Combined Heat and Power is also exempt from CCL

The quantum of the levy is quoted on the utility invoices (as a percentage charge on fuel per kilowatt / hour). This is collected as part of the EMS survey. It should be removed in line with non-residential estates allocations.

Air Passenger Duty

Many air tickets would not quote the amount of Air Passenger Duty. Different governments apply different taxes, surcharges and fees. As airport taxes are rarely separately identified, they need not be identified for exclusion.

Landfill Tax

This is not recorded separately in many universities, although this is likely to change in future. The estates department should be asked to give an estimate that would be excluded in line with the estates cost allocations.

Insurance Premium Tax

This is generally separately identified within insurance premiums (5%). An analysis of insurance premiums should be made and the tax excluded. In doing so it should be noted that a significant part of this tax will be associated with residences.

Example of calculations

A study by one university (turnover approx £350M) identified the following duties for exclusion.

	Amount (non-residential)	Method Used (see above)
Customs Duty on Imports:	£18k	Estimated
Excise Duty on Specified Goods: Fuel Duty	N/A	N/A
Duties on Specified Activities:		
Vehicle Excise Duty	£12k	Recorded Separately
Climate Change Levy	£180k	Reported under EMS
Air Passenger Duty	N/A	N/A
Landfill Tax	£75k	Estimated
Insurance Premium Tax	£85k	Identifiable
Non Residential Total to be Removed	£435k	
Total Indirect Costs (and estates)	£160m	
% amount to be excluded from TRAC Overhead rates when calculating the abated rates for TRAC EC-FP7	0.3%	