Procurement Thresholds and Contract Value Estimation

Unless you can show that your contract has no VAT or a lower rate of VAT, it is recommended best practice to add 20% to the net estimated value of your contract. 20% is the current standard rate of VAT. Adding this standard rate will:

- Reduce the risk of underestimating the contract value
- ensure you follow the correct procurement route and advertising requirements in line with the correct procurement thresholds

If VAT is applicable you must include an allowance in your calculation of the estimated value of the contract to determine whether the contract equals or exceeds the new threshold values.

How to Use the Threshold Values and Calculate Your Estimated Contract Value

Quickfire Guide

Quickfire Guide

How to Calculate the Estimated Value of your Contract

The estimated value of your contract must include the full lifetime of your contract (including any possible extension periods) plus VAT (if applicable).

For example, if your contract is for 3 years plus a possible 1 year extension at an estimated value of £50k per annum, this is:

4 years (3 years + 1 year extension) x £50k = £200k estimated contract value

If your contract is subject to VAT add a 20% allowance for VAT i.e £200k + £40 = £240k

If your contract is not subject to VAT the total estimated value of your contract = £200k

In both instances the advertised contract value should be £200k i.e. exclude VAT.

WTO GPA procurement thresholds change every 2 years.

Contract Notice and Contract Award Notices

Net values should continue to be used for Contract Notices and/or Contract Award Notices i.e. you should continue to exclude VAT in these circumstances.

How Do I Know if VAT Applies to my Contract?

If you have any queries about specific VAT rates for your contract you should seek advice from your own legal and finance departments.

Please find below some guidance on how this may apply to your contract:

VAT Exempt or Zero Rate VAT Contracts

Open or close

If all of the contract's subject matter is exempt from VAT or zero rated VAT, then you do not need to include VAT when calculating the estimated value of the contract. You must be careful to ensure that this is the case for all elements of the contract.

VAT Recoverable Contracts

Open or close

If VAT is initially payable but later reclaimed it must be included in the calculation of the estimated value of the contract.

It is recommended best practice to add 20% to your estimated contract value where you believe that your contract, or an element of your contract may be subject to VAT, but cannot be certain of the rate that should be applied. 20% is recommended as this is currently the standard rate of VAT in the UK. Adding this standard rate reduces the risk of underestimating the contract value and helps ensure your contract is advertised correctly

EU Funded Projects

Open or close

The thresholds for an EU funded procurement are the same as those listed in SPPN 5/2023 It is best practice to always refer to your funding provider for advice when using a contract that has EU funding.

Small Lots and Light Touch Regime Contracts

Open or close

Small lot and light touch regime contracts should include VAT to ensure compliance with all thresholds.

For any queries you may have please refer to Frequently Asked Questions. For guidance on works contracts please refer to SPPN 5/2023.