

## VALUE ADDED TAX

VAT registered businesses act as unpaid tax collectors and are required to account both promptly and accurately for all the tax revenue collected by them.

The VAT system is policed by HM Revenue & Customs with heavy penalties for breaches of the legislation. Ignorance is not an acceptable excuse for not complying with the rules.

We highlight below some of the areas that you need to consider.

It is however important for you to seek specific professional advice appropriate to your circumstances.

Here are the VAT rates and dates of change

Date from	Date to	VAT Rate	Calculation fraction
<b>4<sup>th</sup> January 2011</b>	<b>Time of writing</b>	<b>20%</b>	<b>1/6</b>
1 <sup>st</sup> January 2010	3 <sup>rd</sup> January 2011	17.5%	7/47
1 <sup>st</sup> December 2008	31 <sup>st</sup> December 2009	15%	15/23

### Here are some Important Figures for VAT

With Effect from	<b>1<sup>st</sup> April 2017</b>	1 <sup>st</sup> April 2016	1 <sup>st</sup> April 2012
Registration threshold	<b>£ 85,000</b>	£ 83,000	£ 77,000
De-registration threshold	<b>£ 83,000</b>	£ 81,000	£ 75,000
Cash Accounting Turnover threshold	<b>£1,350,000</b>	£ 1,350,000	£ 1,350,000
Cash accounting Exit Ceiling	<b>£1,600,000</b>	£1,600,000	£ 1,600,000
Flat Rate scheme Entry threshold	<b>£ 150,000</b>	£ 150,000	£150,000
Flat Rate Exit Ceiling	<b>£ 230,000</b>	£225,000	£ 230,000

A number of these have been frozen for some time.

### Road fuel scale charge tables for VAT

For the latest rates visit

<https://www.gov.uk/government/publications/vat-road-fuel-scale-charges-table>

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## **What is VAT?**

### ***Scope***

**A transaction is within the scope of VAT if**

- **there is a supply of goods or services**
- **made in the UK**
- **by a taxable person**
- **in the course or furtherance of business.**

### ***Inputs and outputs***

**Businesses charge VAT on their sales. This is known as output VAT and the sales are referred to as outputs. Similarly VAT is charged on most goods and services purchased by the business. This is known as input VAT.**

**The output VAT is being collected from the customer by the business on behalf of Customs & Excise and must be regularly paid over to them.**

**However the input VAT suffered on the goods and services purchased can be deducted from the amount of output tax owed. Please note that certain categories of input tax can never be reclaimed, such as that in respect of business entertainment and for most business cars.**

### **Points you need to consider**

#### ***Supplies***

Taxable supplies can be standard rated (see table) or zero rated (0%) or for a very restricted range of goods and services Lower Rate.

There are certain supplies, which are not taxable and these are known as exempt supplies. There is an important distinction between exempt and zero rated supplies.

- **If your business is making only exempt supplies you cannot register for VAT and cannot therefore recover any input tax.**
- **If your business is making zero rated supplies you should register for VAT as your supplies are taxable (but at 0%) and recoverability of input tax is allowed.**

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### ***Registration — is it necessary?***

You are required to register for VAT if the value of your taxable supplies exceeds a set annual figure. New limits are announced in the Budget each year.

If you are making supplies below the limit you can apply for voluntary registration. This would allow you to reclaim input VAT, which could result in a repayment of VAT if your business was principally making zero rated supplies.

If you have not yet started to make taxable supplies but intend to do so, you can apply for registration. In this way input tax on start up expenses can be recovered.

### ***Taxable person***

A taxable person is anyone who makes or intends to make taxable supplies and is required to be registered. For the purpose of VAT registration a person includes

- Individuals
- Partnerships
- Companies, clubs and associations
- Charities.

If any individual carries on two or more businesses all the supplies made in those businesses will be added together in determining whether or not the individual is required to register for VAT.

### ***Administration***

Once registered you must make a quarterly return to Customs & Excise showing amounts of output tax to be accounted for and of deductible input tax together with other statistical information.

This must be completed within one month of the end of the period it covers (except for those on the annual accounting scheme who have two months - see below) and returned to the Central Unit based in Southend, together with any payment due.

Businesses who make zero rated supplies and who receive repayments of VAT may find it beneficial to submit **monthly** returns.

Businesses with expected annual taxable supplies under the current annual threshold ([see table](#)) may apply to join the **annual accounting scheme** whereby they will make monthly or quarterly payments of VAT but will only have to complete one VAT return at the end of the year.

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### ***Record keeping***

It is important that a VAT registered business maintains complete and up to date records. This includes details of all supplies, purchases and expenses.

In addition a VAT account should be maintained. This is a summary of output tax payable and input tax recoverable by the business. These records should be kept for six years.

### ***Inspection of records***

The maintenance of records and calculation of the liability is the responsibility of the registered person but H M Revenue & Customs will need to be able to check that the correct amount of VAT is being paid over. From time to time therefore a VAT officer will come and inspect the business records. This is known as a control visit.

The VAT officer will want to ensure that VAT is applied correctly and that the returns and other VAT records are properly written up. They will discuss any VAT problems you may have and, if errors are found, advise on how to rectify them.

However, you should not assume that in the absence of any errors being discovered, your business has been given a clean bill of health.

### ***Offences and penalties***

Customs & Excise have wide powers to penalise businesses who ignore or incorrectly apply the VAT regulations. Penalties can be levied in respect of the following

- Late returns/payments
- Late registration
- Errors in returns.

### ***Cash accounting scheme***

If your annual turnover is below the annual cash accounting threshold (see table) you can account for VAT on the basis of the cash you pay and receive rather than on the basis of invoices.

### ***Retail schemes***

There are special schemes for retailers as it is impractical for most retailers to maintain all the records required of a registered trader.

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## **Making Tax Digital**

The governments Making Tax Digital (MTD) project started with VAT, but will in due course extend to other taxes.

### **MTD for VAT is already here**

Making Tax Digital for VAT is already here. It applies to VAT returns starting on or after 1<sup>st</sup> April 2019, so for many the VAT Return for the quarter ended 30<sup>th</sup> June 2019 will be the first that they have to submit under MTD. It applies to all UK VAT Registered traders other than those who can claim exemption.

### **Who can be exempt**

There are very few who can be exempt. It is mainly

- Those that are voluntarily registered or VAT (Turnover below the threshold)
- Those with a religious belief that prohibits them using technology
- Those who do not have access to the internet AND whose accountants also does not have reasonable access to the internet. Allegedly, one HMRC source gave the example of “reasonable access” as being within 200 miles!

### **What does it mean**

The trader must:

- Keep their VAT records digitally (on a computer). Manual records are no longer allowed (well not unless the trader then pays someone to copy them into digital software!)
- Submit their return from their digital records seamlessly. This means without any manual intervention. So, preparing records then manually copying the figures into HMRC’s online gateway is NOT allowed (except for those below the threshold). However, bridging software is allowed.
- Register for MTD with HMRC. They should do this one month before the first MTD VAT return is due, particularly if they pay by direct debit.

## **REGISTERING FOR MTD**

Details of how to sign up for MTD can be found at

<https://www.gov.uk/guidance/sign-up-for-making-tax-digital-for-vat>

HMRC’s YouTube video '[Digital record keeping for VAT](#)' has handy tips on moving to Making Tax Digital compatible software. [https://www.youtube.com/watch?v=nwNoSztSXQM&index=6&list=PL8EcnheDt1zi1ipk1qexrwdAU5O6LS84a&utm\\_source=HMRC-DCS-Jul-3&utm\\_campaign=DCS-Campaign&utm\\_medium=email](https://www.youtube.com/watch?v=nwNoSztSXQM&index=6&list=PL8EcnheDt1zi1ipk1qexrwdAU5O6LS84a&utm_source=HMRC-DCS-Jul-3&utm_campaign=DCS-Campaign&utm_medium=email)

[https://www.youtube.com/watch?v=nwNoSztSXQM&index=6&list=PL8EcnheDt1zi1ipk1qexrwdAU5O6LS84a&utm\\_source=HMRC-DCS-Jul-3&utm\\_campaign=DCS-Campaign&utm\\_medium=email](https://www.youtube.com/watch?v=nwNoSztSXQM&index=6&list=PL8EcnheDt1zi1ipk1qexrwdAU5O6LS84a&utm_source=HMRC-DCS-Jul-3&utm_campaign=DCS-Campaign&utm_medium=email)

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### Software products

When MTD was first announced HMRC claimed that free software would be available. However, when quizzed about this they said that they would not provide the free software but software companies would provide free versions “because we have asked them to”. Everyone, including the software companies, laughed at them.

Originally HMRC said that using spreadsheets would not be allowed. They even produced some figures to show why not, on Excel spreadsheets. HMRC were ridiculed for this and they did concede that spreadsheets using Bridging software would actually be allowed.

### Bridging software

Bridging software (sometimes called an API) is a product that links form one set of digital records to another, which is capable of digitally submitting a VAT Return. Perhaps the most common example of this is linking Excel spreadsheets to allow vat returns to be filed.

### How we can help

Ensuring that you comply with all the VAT regulations is essential. We can assist you in a number of ways including the following.

- Tailoring your accounting systems to bring together the VAT information accurately and quickly.
- Ensuring that your business is VAT efficient and that adequate finance is available to meet your VAT liability on time.
- Providing assistance with the completion of VAT returns.
- Negotiating with HM Revenue & Customs if disagreements arise and in reaching settlements.

To find out more about how Handley Evans & Co can help you VAT contact us

	Birkenhead Office	Buckley Office
Email	<a href="mailto:birkenhead@handleyevans.co.uk">birkenhead@handleyevans.co.uk</a>	<a href="mailto:buckley@handleyevans.co.uk">buckley@handleyevans.co.uk</a>
Telephone	0151 652 9499	01244 54 9368

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