



# VAT

Factsheet



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 HMRC 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.

## What is VAT?

### Scope

A transaction is within the scope of VAT if:

- there is a supply of goods or services
- it was made in the UK
- it was made by a taxable person
- it was made 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 HMRC 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 third party UK business entertainment and for most business cars.

## Points to consider

### Supplies

Taxable supplies are mainly either standard rated (20%) or zero rated (0%). There is, in addition, a reduced rate of 5% which applies to a small number of certain specific taxable supplies.

There are certain supplies that 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 therefore cannot 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 recovery of input tax is allowed.

### Registration - is it necessary?

You are required to register for VAT if the value of your taxable supplies exceeds a set annual figure (frozen at £85,000 since 1 April 2017).

If you are making taxable 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 HMRC showing amounts of output tax to be accounted for and of deductible input tax together with other statistical information. All businesses have to file their returns online.



Returns must be completed within one month of the end of the period it covers, although generally an extra seven calendar days are allowed for online forms.

Electronic payment is also compulsory for all businesses.

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 not exceeding £1,350,000 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.

### 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 HMRC 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 may 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.

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

HMRC 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 does not exceed £1,350,000 you can account for VAT on the basis of the cash you pay and receive rather than on the basis of invoice dates.

### 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.

### Flat Rate scheme

This is a scheme allowing smaller businesses to pay VAT as a percentage of their total business income. Therefore no specific claims to recover input tax need to be made. The aim of the scheme is to simplify the way small businesses account for VAT, but for some businesses it can also result in a reduction in the amount of VAT that is payable.

## Making Tax Digital for Business: VAT

HMRC is phasing in its landmark Making Tax Digital (MTD) regime, which will ultimately require taxpayers to move to a fully digital tax system. Regulations have now been issued which set out the requirements for MTD for VAT. Under the new rules, businesses with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

The new rules have effect from 1 April 2019, where a taxpayer has a 'prescribed accounting period' which begins on that date, and otherwise from the first day of a taxpayer's first prescribed accounting period beginning after 1 April 2019. The exception to this is a small minority of VAT-registered businesses with more complex requirements who will not be mandated to comply with MTD for VAT until 1 October 2019.

The six month deferral applies to businesses who fall into one of the following categories: trusts, 'not for profit' organisations that are not set up as a company, VAT divisions, VAT groups, those public sector entities required to provide additional information on their VAT return (government departments, NHS Trusts), local authorities, public corporations, traders based overseas, those required to make payments on account and annual accounting scheme users. HMRC expects that the deferral will apply to around 3.5% of mandated businesses.

HMRC is piloting MTD for VAT during 2018, ahead of its introduction in April 2019.



Keeping digital records and making quarterly updates will not be mandatory for taxes other than VAT before April 2020, although businesses below the VAT threshold which have voluntarily registered for VAT can opt to join the scheme.

As with electronic VAT filing at present, there will be some exemptions from MTD for VAT. However, the exemption categories are tightly-drawn and are unlikely to be applicable to most VAT registered businesses.

## 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:

If you would like to discuss any of the points mentioned above please contact us.

- 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 HMRC if disagreements arise and in reaching settlement
- advising as to whether any of the available schemes may be appropriate for you
- helping you comply with the new MTD for VAT regime.

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# Get in touch

## Thames Valley Office

+44 (0)1344 875 000

The Courtyard

High Street

Ascot

Berkshire

SL5 7HP

United Kingdom

## North Hampshire

+44 (0)1252 960 500

Victoria House

178-180 Fleet Road

Fleet

Hampshire

GU51 4DA

United Kingdom

## London - Central Office

+44 (0)203 004 2232

One Mayfair Place

Level 1

Devonshire House

Mayfair, London

W1J 8AJ

United Kingdom

## West London Office

+44 (0)208 789 8588

13 Princeton Court

53 to 55 Felsham Road

Putney

London

SW15 1AZ

United Kingdom

## London - City Office

+44 (0)203 004 2232

The Leadenhall Building

122 Leadenhall St

London

EC3V 4AB

United Kingdom

