



VAT

Arguably the most complex of all of the taxes; the penalties for not getting it right can be serious! The VAT system is policed by HMRC and they impose heavy penalties for any breach of legislation. Ignorance is not bliss, nor is it an acceptable excuse for not complying to the VAT rules. It is imperative that you seek professional advice which will be tailored to your specific circumstances.

What is VAT?

VAT is a tax on consumer expenditure, collected on business transactions, imports and acquisitions. Most business transactions involve supplies of goods or services. VAT is payable if the supply is:

- Made in the UK; and
- By a taxable person; and
- In the course of a business; and
- Is not specifically exempted or zero rated.

Input VAT and Output VAT

Businesses charge VAT on their sales (known as output VAT) and is charged to them on goods and services purchased (known as input VAT). Output VAT is collected from the customer by the business on behalf of HMRC, and therefore must be regularly paid over to them. Input VAT can be deducted from the amount of output VAT owed, although certain input tax can never be reclaimed, such as VAT on business entertainment and on most business cars.

Things you must consider

Taxable Supplies

Taxable supplies are either standard rates (17.5%) or zero rates (0%). For the period 1 December 2008 to 31 December 2009, the standard rate of VAT has been reduced to 15%. There is also a reduced 5% rate, which applies to a small number of specific taxable supplies. There are also some supplies that are not taxable, which are known as exempt supplies.

There is a clear distinction between exempt and zero rated supplies:

- If your business is only making exempt supplies it cannot register for VAT and therefore cannot recover any input tax.
- You should register for VAT if your business is making zero rated supplies as your supplies are taxable (at 0%) and the recovery of input tax is allowed.

When do I have to register for VAT?

You are required to register for VAT if your taxable turnover exceeds a set annual threshold (currently £68,000). You can, and in some cases should, register for VAT if your turnover is less than this. Voluntary registration will allow you to reclaim input VAT, which could result in a repayment of VAT if your business is principally making zero rated supplies.

You can also apply for registration if you haven't yet started to make taxable supplies but you intend to do so. This will allow you to recover the input tax on start-up expenses.

What is a taxable person?

This is anyone who makes or intends to make taxable supplies and is therefore required to be registered. For VAT purposes, a taxable person includes:

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

If an individual carries on two or more business, all supplies are added together to determine whether or not the individual is required for register for VAT.

Administration

After registration, you must make a quarterly return to HMRC to show the amounts of output tax to be accounted for and the deductible input tax. You must complete this within one month of the end of the period it covers (except for those who use the annual accounting scheme who have two months).

Any business that makes zero rated supplies and who receives repayments of VAT may find it beneficial to submit a monthly return.

Any business that has or expects to have annual taxable supplies not exceeding £1,350,000 may apply to join the annual accounting scheme. This means they make monthly or quarterly payments of VAT, but only have to complete one VAT return at the end of the year.

VAT Inspection

From time to time, HMRC will need to check that you have been paying over the correct amount of VAT. A VAT officer will inspect your business records as part of a 'control visit'. During this visit, the VAT officer will want to ensure that VAT is correctly applied and that the returns and VAT records are correctly written up.

Offences and Penalties

HMRC have great powers to penalise businesses who ignore or incorrectly apply the VAT regulations and can be levied for the following:

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

What is the 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 based on your invoices. We have a separate factsheet that deals with the cash accounting scheme.

What is the annual accounting scheme?

Your business can apply to join the scheme if you expect your taxable supplies not to exceed £1,350,000 in the next 12 months. Your VAT returns must be up to date and you cannot register as a group of companies. We can advise on how to join the scheme. You will need to complete form 600 (AA). We have a separate factsheet that deals with the annual accounting scheme.

Schemes for Retailers

It is impractical for retailers to maintain all of the records that are required of a VAT registered trader, therefore special schemes for retailers apply. This is a complex area which will require specialist advice.

VAT Flat Rate Scheme

This scheme allows businesses with a taxable turnover not exceeding £150,000 and a total turnover not exceeding £187,500 to pay VAT as a percentage of their total turnover. This scheme simplifies the way small businesses account for VAT. For some businesses it can result in a reduction in the amount of VAT they pay. We have a separate factsheet that deals with the Flat Rate scheme.

How we can help

We can assist you to ensure that you comply with all of the VAT regulations:

- We will advise of the most appropriate VAT scheme for you
- We will tailor your accounting systems to ensure you have the VAT information quickly and accurately
- We will ensure that your business is VAT efficient and that you have adequate finance in place to meet your VAT liability on time
- We can provide assistance to complete your VAT return
- If disagreements arise, we can negotiate with HMRC on your behalf and help reach a settlement

Call our Tax Specialists for more help

We have offices throughout Staffordshire and North Shropshire. Our Tax specialists are:

Leek Office – 01538 393600

Seaton Kennerley

Uttoxeter Office – 01889 563550

Carl Marsden

Newport Office – 01952 813330

Mervyn Davies

To email: initialsurname@howsons.com

(N.B. When addressing the Leek Office, please replace .com with .net for example skennerley@howsons.net or cmarsden@howsons.com)

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