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Value Added Tax

Value Added Tax (VAT) is a tax chargeable on taxable supplies made in the UK by taxable persons. This guide explores a range of basic VAT planning options and provides an introduction to some of the schemes available for businesses with a smaller turnover.

Should I be VAT registered?

You should notify HMRC if your taxable turnover for the last 12 months exceeds £85,000, or if there are reasonable grounds for believing that your turnover will exceed £85,000 in the next 30 days.

Turnover below the £85,000 limit?

You are entitled to register on a voluntary basis, provided you have a genuine business.

VAT supplies

VAT law covers all types of supply of goods or services (outputs), whether of a revenue or capital nature. Supplies include the sale, hire or loan of goods, which normally fall into one of the following categories:

- Standard rated – 20%
- Reduced rate – 5%
- Zero rated – e.g. exports, most food, books
- Exempt – e.g. insurance, education and health
- Outside the scope – e.g. dividends.

VAT and your accounting records

Once registered, you are required to keep and maintain adequate accounting records to enable you to account to HMRC, as well as issuing invoices and credit notes that comply with VAT rules concerning form and content.

Making Tax Digital

Making Tax Digital for VAT

Businesses are mandated to use the Making Tax Digital for VAT (MTD for VAT) system to meet their VAT obligations. Under the rules, firms with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide VAT return information to HMRC using 'functional compatible software'.

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

VAT schemes

VAT schemes

There is a range of schemes designed to simplify VAT accounting obligations and to reduce the cost of compliance for smaller businesses:

Annual accounting scheme

This is available for most businesses that expect to have an annual tax-exclusive turnover of not more than £1,350,000: such businesses can join the scheme from the date they register for VAT.

✔ Scheme advantages:

Under the annual accounting scheme, agreed monthly or quarterly payments are made on account, and businesses need only complete one VAT return a year. VAT cash flow is determined in advance and the annual return can be prepared at the same time as the annual accounts.

Cash accounting scheme

This is available for businesses with an annual turnover that is not expected to exceed £1,350,000 in the next 12 months. It enables them to account for VAT on the basis of payments received and made, rather than on tax invoices issued and received. The main accounting record will be the cash book.

✔ Scheme advantages:

In addition to simplified bookkeeping, a business will only have to pay output VAT to HMRC when the customer pays.

Flat rate scheme

This is available for businesses that expect their VAT exclusive turnover in the next 12 months to be no more than £150,000 in taxable supplies.

✔ Scheme advantages:

The scheme saves time by removing the need to calculate and record output and input tax when calculating the VAT due to HMRC.

Key VAT issues

Returns and payment of VAT

Every quarter, a VAT return must be submitted to HMRC. Businesses which anticipate regular VAT repayments may request monthly returns. All businesses must now submit their returns online and pay the tax digitally.

VAT returns

Businesses that fall within the scope of MTD for VAT must submit their VAT returns using software compatible with the MTD for VAT regulations. Submission can be made using Application Programming Interface (API) enabled spreadsheets, software or bridging software. Information extracted from the digital records is used to populate the VAT return.

There are no changes to the statutory VAT return or payment dates.

The cost of not complying

The compliance regime includes penalties for failing to notify HMRC of liability to register for VAT, and default surcharges for failing to deliver VAT returns and payments on time.

If you receive a Surcharge Liability Notice (SLN), it is important that you do not ignore this notice and that you comply with all submission and payment deadlines for the 12-month Surcharge Period in order to avoid surcharges that start at 2%, although there is an initial de minimis of £400.

For businesses complying with MTD, there is a soft-landing penalty period if they don't have a digital link between software programs. For VAT return periods beginning between 1 April 2019 and 31 March 2020 a 'cut-and-paste' method will be acceptable while businesses update their systems.

VAT on staff expenses

Although the rules normally prevent you from reclaiming VAT on supplies that are not made directly to you, there are certain circumstances when the rules are relaxed.

Where VAT invoices for subsistence costs made out to the employee are reimbursed, the VAT input element may be reclaimed. This also applies where an employee is reimbursed for road fuel, and VAT may also be reclaimed on the fuel element of mileage allowances, as long as certain records are kept.

Bad debts

Subject to appropriate records and evidence, VAT may be reclaimed where at least six months have elapsed since the later of the date of supply or the due date for payment. See also: **cash accounting scheme**.

Fuel scale charge for private fuel

The fuel scale charge applies when a business reclaims VAT on fuel used in business cars for private motoring.

VAT Do's and Don'ts

✔ Do:

- Keep a monthly record of your turnover – late registration can result in severe penalties

- Notify your local VAT office when changes take place (such as a change of address or a new trading name) – changes must be notified within 30 days
- Retain records for six years – these could be demanded by law
- Obtain and retain VAT invoices – these provide your authority to recover VAT on supplies made to you
- Charge VAT on supplies to your staff
- Charge VAT on any equipment or vehicles (except motor cars) that you sell or part exchange
- Correctly account for VAT on fuel used for private motoring, either by keeping detailed mileage records or paying the fuel scale charge
- Recover VAT on inputs from other EC countries
- Deduct any VAT you are claiming back as bad debt relief
- Account for VAT on credit notes issued to you by your suppliers.

✗ Don't:

- Claim the VAT paid on the purchase of a motor car – it is only recoverable in some special cases
- Claim the VAT paid on goods or services used for private purposes. Where there is an element of business use (e.g. telephone), an appropriate percentage should be claimed
- Claim the VAT paid on client entertainment (business lunches, etc)
- Forget to account for VAT on inter-company charges
- Charge VAT on the transfer of a business as a going concern (make sure contracts incorporate appropriate VAT provisions).

We can help you with any questions relating to VAT and your business. Contact us today for advice and information.

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