FACTSHEET

Hawsons

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# VAT

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.

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### 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.

### Amended VAT payment deadlines due to COVID-19

Businesses that deferred VAT payments in 2020 can now join the new online VAT Deferral New Payment Scheme to pay their liability in smaller monthly instalments.

To take advantage of the new payment scheme businesses will need to have deferred VAT payments between March and June 2020, under the VAT Payment Deferral Scheme. They will now be given the option to pay their deferred VAT in equal consecutive monthly instalments from March 2021.

Businesses will need to opt-in to the VAT Deferral New Payment Scheme. They can do this via the online service that opened on 23 February and closes on 21 June 2021.

## Reduced VAT rate for hospitality sector

In July 2020, the government introduced a temporary 5% reduced rate of VAT for certain supplies of hospitality, hotel and holiday accommodation and admissions to certain attractions. In September 2020 the Chancellor extended the reduced rate to 31 March 2021. The government has now announced an extension of the reduced rate until 30 September 2021. To help businesses manage the transition back to the standard 20% rate, a 12.5% rate will apply for the subsequent six months until 31 March 2022.

### 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

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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

Under Making Tax Digital for VAT (MTDfV), businesses with a turnover above the VAT threshold must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

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

There are some exemptions from MTDfVAT. 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 MTD for VAT regime.

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