

VAT Facts

2009



Registration

Standard rate = 15% **From 1 January 2010 due to be** 17.5%

Registration threshold from 1 May 2009: £68,000

Deregistration threshold from 1 May 2009: £66,000

Accounting

Tax point

Tax point is the earliest date that the goods/services are supplied, an invoice is raised or payment is made/received.

The date of the invoice becomes the tax point if the invoice is raised within 14 days of basic tax point.

Annual accounting

Annual accounting (one annual VAT return) is available when turnover for next year is anticipated to be no more than £1,350,000. Nine interim payments are required.

Annual accounting – small turnover

Businesses whose turnover is £1,350,000 or less need only make three interim payments. Those businesses, which also have a net liability in the previous year of £2,000 or less, are able to make one annual payment.

Cash accounting

Cash accounting is available when taxable turnover is no more than £1,350,000. You are required to leave the scheme when your taxable turnover has exceeded £1,687,500.

Flat-rate scheme

From 25 April 2002 there is a flat-rate scheme for VAT. From 10 April 2003 businesses with tax exclusive turnover of up to £150,000, (previously £100,000), will be permitted to calculate their net tax by applying a percentage for their industry to their turnover.

Special schemes

Special schemes are also available, for example: second-hand goods, tour operators and retailers.

Groups

Eligibility

Two or more corporate bodies are eligible to be treated as a VAT group if each has a fixed establishment in the UK. One of them must control the other, or one person control all of them, or two or more individuals in partnership control all of them.

Intra VAT group supplies

Intra VAT group supplies are normally disregarded for VAT purposes. In cases of deliberate avoidance, Customs may direct that:

- Intra VAT group supplies are liable to VAT.
- An associated company is to be treated as part of the group.
- A member of the VAT group is to be treated as removed from the group.

Holding companies

Input tax on professional fees incurred in connection with the disposal of shares in a subsidiary is recoverable in so far as the company incurring the cost is fully taxable, otherwise partial exemption restrictions will apply.

Applications

An application for a company to join or leave a VAT group is effective from the day it is received by Customs, or such other time as is agreed.

Additional anti-avoidance provisions apply where third parties receive the majority of economic benefits and the group is not fully taxable.

VAT schemes – avoiding or saving VAT

For VAT returns starting on or after 1 August 2004 the use of VAT mitigation schemes has to be disclosed within 30 days of the due date for submission of the returns. Initially there were 8 schemes, but it is important to take advice if you believe you might be affected.

Property

Key dates

- An option to tax at the standard rate of VAT is available to those persons who make otherwise exempt supplies of land and buildings, other than dwellings and relevant charitable or residential buildings or a pitch for a residential caravan or facilities for the mooring of a residential houseboat.
- All options are revocable after 20 years. From 1 June 2008 an option is also revocable within six months of notification to Customs subject to meeting certain conditions. All the notes are on the web under form VAT 1614.

Where the cost of a building is £250,000 or more and VAT has been charged, then any amount of exempt use within ten years of completion will give rise to an adjustment under the capital goods scheme. In certain situations, the option to tax is not effective for land or buildings, including those that are, or will become, covered by the capital goods scheme either by the grantor or the recipient and will be used other than for a fully taxable business.

Trade with EU

From 1 January 1993 there are special procedures and returns for trade with other EU states. The main requirements are:

- A quarterly EU sales list is required for goods sold to member states.
- A monthly intrastat form is required both for arrivals and dispatches over the cumulate threshold which is £270,000 from 1 January 2009, and £260,000 previously.
- There are likely to be changes for intra EU services from 1 January 2010.
- Goods sold to an EU trader are zero-rated where the VAT number of the customer is shown on the supplier's sales invoice.

- VAT on goods acquired from the EU is self-assessed but recovered subject to the normal rules. Businesses selling by mail order to private customers must register in the other state if the threshold is reached.
- If trade involves three countries it may be necessary to register in other member states.

Bad debts

For supplies after 1 January 2003 the VAT bad debt provisions were simplified. There is no longer a requirement to notify the supplier of your bad debt relief claim. However businesses that have not paid their liability within six months are required to repay automatically any input tax that they have claimed.

Partial exemption

Input VAT can be claimed only to the extent that it relates to a taxable supply, either directly or on an apportioned basis. Where residual input tax is substantial anti-avoidance provisions to prevent distortion must be considered.

A business can be treated as fully taxable in any accounting period if its input VAT attributable to exempt supplies is:

- i) £625 or less per month on average and
- ii) the VAT incurred on purchases relating to the making of exempt supplies is no more than 50% of the VAT on purchases for taxable and exempt supplies.

Input VAT initially claimed on the following capital goods shall be adjusted in accordance with the fluctuations in the taxable person's recovery rate, with effect from 1 April 1990:

- Computers and computer equipment individually worth £50,000 or more (spread over 5 years).
- Land and buildings worth £250,000 or more (spread over 10 years).

Input tax on cars

Key dates

- From 1 August 1995, businesses can recover the VAT that they pay on the purchase of cars bought wholly for business purposes. This primarily benefits leasing companies. In these cases they will have to charge VAT when they sell the car.
- From 1 August 1995, a business that rents a car from a lessor who has reclaimed the input VAT can reclaim 50% of the VAT on the rental charge where there is both business and private use. If there is no business use no input VAT can be recovered. If you recover only 50% you do not have to account for VAT on the employee's private use.

VAT fuel scale charges

From 1 May 2007 VAT is to be chargeable on the private use of fuel and will be based on the vehicle's CO₂ emissions. Previously the fuel scale charge on which output tax was calculated was based on engine size. The new table of charges aligns the basis of the VAT private use charge with that for direct taxation.

Errors and penalties

For accounting periods commencing on or after 1 July 2008, the limit of £2,000 rose to the greater of £10,000 or 1% of turnover, subject to an upper limit of £50,000.

Under or over declaration of VAT can be adjusted on subsequent return if less than the above limit. Larger errors must be separately notified on Form VAT 652 or by letter.

New penalty regime

For returns covered by a period that starts on or after 1 April 2008 and due to be returned after 1 April 2009, there is a new system for penalties that is linked to the reasons why the errors have occurred.

This system applies to all of the following:

- Income Tax
- PAYE for employers and National Insurance Contributions
- CIS
- VAT
- Corporation Tax
- Capital Gains Tax

The new system is also expected to be extended to most other taxes and duties for return periods from 1 April 2009, to be filed on or after 1 April 2010.

Under the new system, if you send in a document that contains a mistake, HMRC will charge a penalty if the error is:

- Because of a lack of 'reasonable care'
- Deliberate - such as intentionally sending incorrect information
- Deliberate and concealed - such as intentionally sending incorrect information and taking steps to hide the error

The penalties are geared to the "potential lost revenue" (PLR). The table shows how the penalties relate to your culpability.

Penalised behaviour	Maximum penalty, without disclosure, based on PLR	Minimum penalty, with prompted disclosure, based on PLR	Minimum penalty, with unprompted disclosure, based on PLR
Careless	30%	15%	Nil
Deliberate but not concealed	70%	35%	20%
Deliberate and concealed	100%	50%	30%

There is also the concept of a suspended penalty but only for the "careless" category. HMRC mentions, as an example, a tennis club that sold its land to the local authority but omitted to disclose the gain on its tax return. They say that such a penalty cannot be suspended because the club is unlikely to have future gains.

A fact sheet of this type is, by necessity, of a brief and summarised nature. Kingston Smith LLP cannot accept liability for any losses incurred as a result of reliance thereon. Professional advice should be sought for more detailed information on specific technical points. Minimal reference to the VAT implications on construction, land and property has been made due to its extensive nature: greater detail is considered inappropriate for a fact sheet of this type. All information was correct at the time of going to press: July 2009.

VAT Advice helpline: If you need practical VAT advice, contact Adrian Houstoun (ajh@kingstonsmith.co.uk), Kevin Woolridge (kwoolridge@kingstonsmith.co.uk) or Mahtab Clark (mclark@kingstonsmith.co.uk).

www.kingstonsmith.co.uk

City Devonshire House, 60 Goswell Road, London EC1M 7AD
Telephone 020 7566 4000

Hayes Middlesex House, 800 Uxbridge Road, Hayes,
Middlesex UB4 0RS Telephone 020 8848 5500

Redhill Surrey House, 36-44 High Street, Redhill, Surrey RH1 1RH
Telephone 01737 779000

Romford Orbital House, 20 Eastern Road, Romford,
Essex RM1 3PJ Telephone 01708 759759

St Albans 105 St. Peter's Street, St Albans, Herts AL1 3EJ
Telephone 01727 896000

West End 141 Wardour Street, London W1F 0UT
Telephone 020 7304 4646



Kingston Smith LLP, Chartered Accountants. Registered to carry out audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.