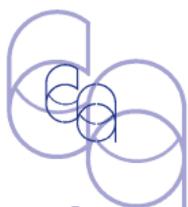


2016/17  
GUIDE TO...

# Value Added Tax



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# YOUR GUIDE TO... Value Added Tax

**Value Added Tax (VAT) is a tax chargeable on taxable supplies made in the UK, by taxable persons. Credit is given for tax paid to other businesses and the net balance is then payable or reclaimable.**

**In this guide we highlight a range of basic VAT planning options, including an introduction to some of the schemes available for businesses with a smaller turnover.**

## Should I be VAT registered?

You should notify HM Revenue & Customs (HMRC) if your taxable turnover for the last twelve months exceeds £83,000, or if there are reasonable grounds for believing that your turnover will exceed £83,000 in the next 30 days.

## Turnover below the £83,000 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 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.

**We can help you with this.**

# 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 twelve 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 twelve 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 electronically.

Since 1 January 2015, businesses supplying digital services in the EU can use the 'Mini One Stop Shop' (MOSS) online tool.

## The cost of not complying

The compliance regime includes penalties for failure to notify HMRC of liability to register for VAT, and default surcharges for failure 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.

## 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 (Box 4 of Form 100) 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**.

## Flat rate valuation charge for private fuel

The flat rate charge applies to all business cars which are used 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 major changes take place – 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
- Account for VAT on fuel used for private motoring using the appropriate flat rate valuation 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 entertaining (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.**

# Our Services

In addition to the full range of taxation, accounting and auditing services, Cohen Arnold is able to offer you assistance and guidance in all the following areas:

- Financial Due Diligence
- Tax planning and mitigation
- HM Revenue and Customs investigations
- Information Technology and computer consultancy
- Finance raising for both corporate and property acquisitions
- Company formation and administration in all jurisdictions
- Comprehensive charity services
- Business start-up advice
- PAYE and VAT administration services

*This guide is for general information only. No responsibility is taken for any action taken or refrained from in consequence of its contents. Always seek professional advice before acting.*



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