

Businesses registered for VAT effectively act as unpaid tax collectors for HMRC and are required to report accurately and to a given timetable for all the VAT revenue collected by them.

The VAT system is monitored by HMRC with heavy penalties imposed on businesses for breaches of this complex legislation. Ignorance is not an acceptable excuse for not complying with the rules.

It is therefore important for you to seek specific professional advice to ensure that the appropriate system is in place that meets your business' circumstances and more importantly complies with HMRC rules thus avoiding any unwanted fines or penalties.

Within **abacus** we have specialist VAT consultants who support all our accountants so you are guaranteed the best possible advice by contacting your local **abacus** accountant.

What is VAT?

Scope

VAT (Value added tax) is a tax imposed on most goods or services.

A transaction is within the scope of VAT if there is a supply of goods or services:

- made in the UK
- by a taxable person
- 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 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 (e.g. domestic gas).

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 (£81,000 from 1 April 2014).

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.

You are required to register for VAT if the value of your taxable supplies exceeds a set annual figure (currently £81,000). This figure often changes each year with the budget, but not necessarily.

If you are making 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.

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.

This must be completed within one month of the end of the period it covers (except for those on the annual accounting scheme who have two months – see below).

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.

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 will 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 that 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 invoices.

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 businesses with taxable turnover not exceeding £150,000 and total turnover not exceeding £230,000 to pay VAT as a percentage of their total turnover. Therefore no specific claims to recover input tax need to be made.

The 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.

How **abacus** can help

All **abacus** accountants are very experienced in VAT legislation and the practical requirements for record keeping. We can therefore take away a lot of the unwanted hassle of calculating and submitting of VAT returns. Where specialist advice is required all **abacus** accountants have access to specialist VAT consultants at no extra cost to the client.

In summary **abacus** can help you:

- 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.

If you would like to discuss any of the points mentioned please contact your local **abacus** accountant.

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