

The Essentials of UK VAT

Course book



...market leaders for VAT training

Course book

This document contains the text of the PowerPoint displays that are used during the presentation of the course

The Essentials of UK VAT

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UK Training (Worldwide) Limited
17 Duke Street
Formby
L37 4AN

Website: www.uktraining.com

Email: info@uktraining.com

Telephone: 01704 878988



Programme

Day 1

Introduction

How does VAT work?

Supplies of goods and services

Registration

Rates of VAT

Time of supply

VAT invoices

Day 2

Reclaiming input tax

VAT returns

Partial exemption

Bad debts and penalties

International supplies

The course will take place on **22nd and 23rd April**

The room will open at **9:50am**

The course will commence at **10:00am** and close by **1:00pm**

Your free eBook

You can now download your exclusive copy of

A Comprehensive Guide to UK VAT

This book will be a useful source of information
for you to refer to after the course.

To download the book please type the following
into the address bar of your browser:

www.uktraining.com/vat28213

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Session 1: What is VAT?

What is VAT?

“A tax which is imposed on most goods and services at each stage of production, starting from raw materials to the final product.”

How does VAT work?

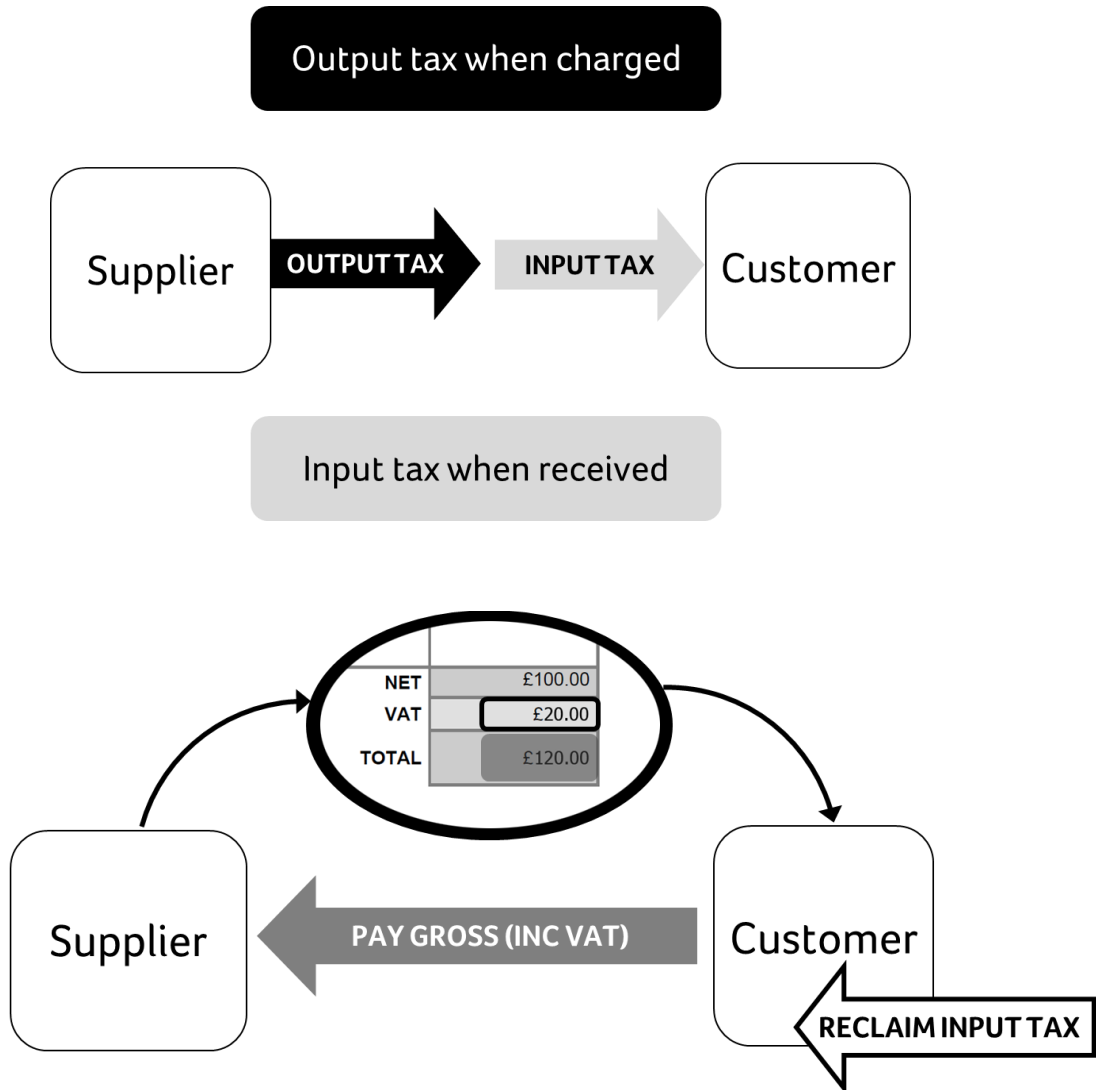
- Suppliers charge output tax
- VAT registered customers can recover input tax
- VAT is borne by the final consumer
 - Usually an individual, but not always
- All EU countries operate a similar but not identical system



Impact of Brexit

- UK Law replaces EC Laws
- No EC Directive
- No influence of European Court of Justice (ECJ)
- Impact on cross border supplies (now imports/exports)
- Possible changes to VAT rates (e.g. 1% VAT on food)
- Removal/change of some of the current simplifications
- Need to register in different EC Member states

How does VAT work?





When is VAT payable on supplies?

		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
Supplier to Manufacturer					
Goods	£400	400	80	NIL	80
VAT @ 20%	£80				
Total	£480				
Manufacturer to Wholesaler					
Goods	£1000	600	200	80	120
VAT @ 20%	£200				
Total	£1200				
Wholesaler to Retailer					
Goods	£1800	800	360	200	160
VAT @ 20%	£360				
Total	£2160				
Standard rate to Consumer					
Goods	£3000	1200	600	360	240
VAT @ 20%	£600				
Total	£3600				
				TOTAL VAT	£600



What is a supply for VAT purposes?

- Anything done for a **consideration** in the course of business
- A voluntary payment is not a supply
 - e.g. gratuities, donations
- If included in the price you pay (you have no choice), its part of the consideration

Usually payment in the form of money but can be of a non-monetary nature

Part payment - example

- You sell a new car for £15,000 + VAT (£3,000)
- You take the customers car in part exchange
- You agree a trade in value of £7,500
- Customer pays cash for the balance £10,500
- The VAT you declare on your VAT return is £3,000
- The “consideration” you receive is £18,000 (made up of £7,500 + £10,500 cash)

Item	Net (£)
Car	15,000.00
<hr/>	
Sub total	15,000.00
VAT	3,000.00
<hr/>	
Total	18,000.00
Less part exchange	7,500.00
Balance	10,500.00



What is a supply of goods?

- Passing of exclusive ownership for a consideration
- Normal sale and delivery of goods
- Transferring goods under a hire purchase agreement
- Providing water, power, heat, refrigeration or ventilation
- Transferring a major interest in land

What is a supply of services?

- Anything done for a consideration other than a supply of goods
- Hire of goods
- Work done on another person's goods
- Agreeing to assign or surrender a right



What are deemed supplies?

There is no “actual supply”, but the law says that there is...

- Goods owned by the business but given away
 - e.g. gifts
- Goods owned by the business used for a private use
 - e.g. fuel scale charge
- Services bought by the business but put to private use
- VAT due on assets held at deregistration from VAT

Can there be a supply if there is no consideration?

- Goods – yes if...
 - A gift of goods where cost exceeds £50
 - Assets are taken permanently into private use
- Services – no, treated as non-supplies



When is VAT payable on supplies?

When the supply is...

- ...made in the UK or Isle of Man
- ...and made by a taxable person
- ...and in the pursuit of business
- ...and the supply is liable to a positive rate of VAT (5%, 20%)



Session 2: VAT Registration

Who should register?

Businesses with taxable supplies in excess of registration threshold - **£85,000**

- Historic turnover rule – look back 12 consecutive months
- Future turnover rule – look forward 30 days

Exception from VAT registration

- There is an exception from registering if you exceed the threshold temporarily
 - E.g. a one-off event pushes you over the registration threshold
- You will need to show HMRC that your taxable supplies will not exceed the deregistration threshold in the next 12 months
 - Notify HMRC’s VAT Registration Service that you’ve reached the threshold within 30 days of the end of that month
 - Request their permission to use the exception
 - Continue to monitor turnover going forward



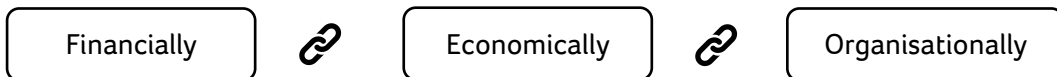
Can businesses voluntarily register?

Businesses can voluntarily register if taxable supplies are below threshold

- Making taxable supplies in the course of business; or
- Making supplies outside of UK which would be taxable supplies if made in the UK

What is 'disaggregation' or 'artificially separated businesses'?

- Some businesses may seek to avoid registration for VAT by splitting their business into two or more legal entities
- HMRC may direct that businesses which are artificially separated must be treated as one
- This may happen when businesses are separated for VAT purposes but are linked...





When can a business deregister?

- When its taxable supplies in the next year are likely to fall below the deregistration threshold - **£83,000**
- A business **must** deregister within 30 days of ceasing to make taxable supplies

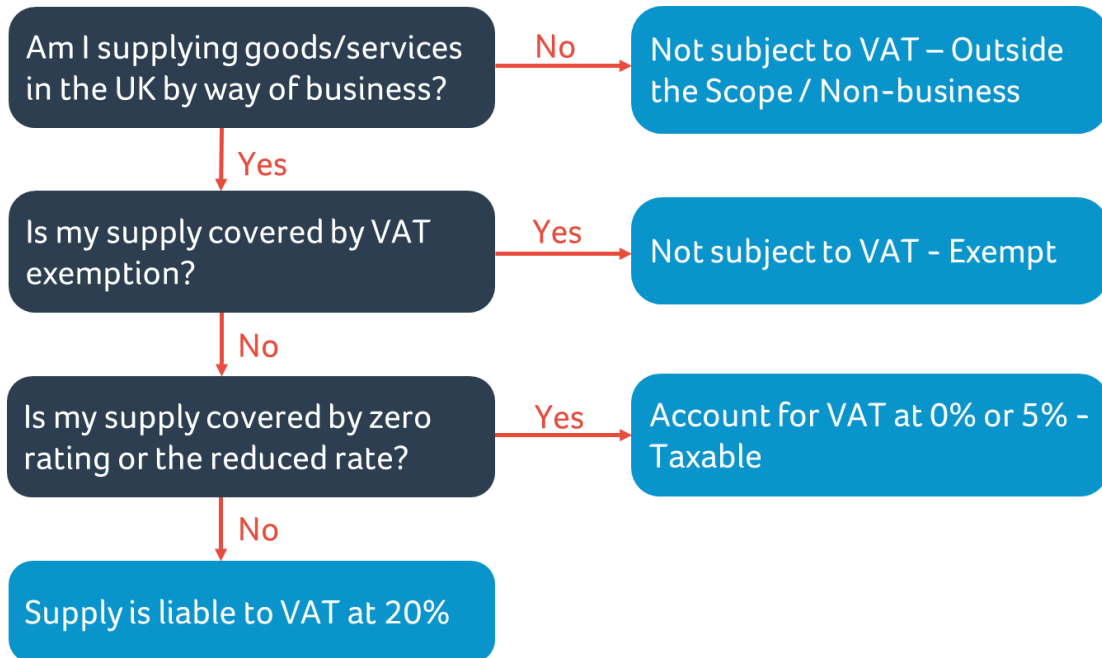
How does group registration work?

- Companies under common control can apply
- All companies are treated as single taxable person
- One company is nominated as a representative member
- Representative member completes return and accounts for VAT
- Supplies between companies are outside scope the scope of VAT



Session 3: VAT Rates

VAT liability decision tree





What supplies are zero-rated?

- Food
- Sewerage services and water
- International services
- Books
- Drugs, medicines, reliefs for people with disabilities
- Protected buildings
- Charities
- Caravans and houseboats
- Construction of buildings
- Transport
- Clothing and footwear
- Bank notes
- Talking books for the blind and handicapped and wireless sets for the blind
- Gold – supplies between banks
- Tax-free shops

Quick test: What is the VAT liability – are they liable to 0%?

Pistachios in shells

Dry roasted pistachios

Jaffa cakes

Digestive biscuits with chocolate



		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
Supplier to Manufacturer					
Goods	£400	400	80	NIL	80
VAT @ 20%	£80				
Total	£480				
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Wholesaler to Retailer					
Goods	£1800	800	360	200	160
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Total	£2160				
Standard rate to Consumer					
Goods	£3000	1200	600	360	240
VAT @ 20%	£600				
Total	£3600				
				TOTAL VAT	£600

If the retailer made zero-rated supplies, how much VAT would have been paid to HMRC?

Zero rate to Customer					
Goods	£3000	1200	ZERO	360	(360)
VAT @ 0%	ZERO				
Total	£3000				
				TOTAL VAT	ZERO



What supplies are exempt?

- Sports, sports competitions and physical education
- Burial and cremation
- Land
- Fund raising events by charities and other qualifying bodies
- Education
- Betting, gaming and lotteries
- Postal services
- Health and welfare
- Supplies of goods where input tax cannot be reclaimed
- Insurance
- Investment gold
- Subscriptions to trade unions, professional and other public interest bodies
- Finance
- Cultural services
- Works of art

What is an Option to Tax (OTT)?

- An 'option to tax' changes an exempt supply to a supply liable to VAT at 20% standard rate
- Normally applies to land and property and lasts for 20 years
- There are two stages - first deciding to opt and second notifying HMRC
- Think carefully before applying an OTT - it can provide VAT recovery, but you also have to charge VAT on the supply
- It is a complicated area with a number of pitfalls, so take advice
- For land and property use forms VAT 1614A to L



		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
Supplier to Manufacturer					
Goods	£400	400	80	NIL	80
VAT @ 20%	£80				
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Total	£2160				
Standard rate to Consumer					
Goods	£3000	1200	600	360	240
VAT @ 20%	£600				
Total	£3600				
					TOTAL VAT £600

If the retailer made exempt supplies, how much VAT would have been paid to HMRC?

Exempt to Customer					
Goods	£3000	1200	N/A	NIL	NIL
VAT Exempt	-				
Total	£3000				
					TOTAL VAT £360



What supplies are reduced-rated?

- Supplies of domestic fuel and power
- Residential conversions
- Smoking cessation products
- Installation of energy-saving materials
- Residential renovations and alterations
- Grant funded installation of heating equipment, security goods or connection of gas supply
- Children's car seats
- Contraceptive products
- Installation of mobility aids for the elderly
- Women's sanitary products
- Caravans
- Welfare advice or information

What are the differences between zero-rated and exempt supplies?

Exempt supplies	Zero-rated supplies
<ul style="list-style-type: none">• Exempt supplies are not taken into account when calculating taxable turnover for registration• Traders making only exempt supplies cannot recover input tax	<ul style="list-style-type: none">• Traders making zero-rated supplies (taxable supplies) can recover their input tax

Traders making a mixture of taxable and exempt supplies are 'partially exempt' and recover a proportion of their input tax



Session 4: Time of Supply

Why is the time of supply important?

- It determines the period for accounting for VAT
- It establishes the rate of tax to be applied
- It influences registration
- It can affect recoverability of input vat
- It is relevant when the VAT rate changes

When is the basic tax point?

- Goods - the date they are delivered or collected
- Services - the date all work except outstanding invoicing is complete

When can the basic tax point be overridden by an actual tax point?

1. By issuing a tax invoice before the basic tax point
2. By receiving payment before the basic tax point
3. By issuing a tax invoice up to 14 days after the basic tax point



What is the tax point for a continuous supply of services?

- E.g. telephone services, legal services, construction
- There is no basic tax point
- Tax point is the earlier of...
 - the date a VAT invoice is raised
 - the date of receipt of payment

What if a tax invoice is issued more than 14 days after the basic tax point?

- The basic tax point applies unless HMRC have agreed otherwise
- You should apply to have an extension to the 14 day rule



Session 5: Invoicing

Do I always have to issue an invoice?


No, you do not have to issue a VAT invoice to a VAT registered person if...

- Your customer operates a self-billing arrangement or you issue authenticated receipts (mainly in the building industry)
- You sell goods under one of the VAT second-hand margin schemes
- You make supplies under TOMS (to travellers)
- Your invoice is only for exempt or zero-rated sales within the UK

If the person is not VAT registered, you only need to issue a VAT invoice if they ask

What is a tax invoice?

- Supplier's name, address and VAT reg. number
- Invoice number
- Customer's name and address
- Tax point
- Date of issue
- Description of goods or services supplied
- Unit price
- Net amounts
- Amount of VAT
- Gross amounts
- Rate of VAT

 XYZ Ltd 31 Shepherds Avenue South Cerney GL6 1AZ		ABC Limited 14 Farnborough Drive, Cheadle, SK13 2NG		
		VAT reg 315 4664 63 Sales invoice no 31456		
		Tax point 31.1.18	Invoice date 19.2.18	
Quantity	Description and Price	Net Amount £	VAT Rate %	VAT Amount £
15	Tables @ £200	3,000.00		
50	Chairs @ £40	2,000.00		
Cash discount of 5% if paid within 30 days		5,000.00	20	1,000.00
		VAT		1,000.00
		TOTAL		6,000.00



What is a modified tax invoice? (consideration more than £250)

- Supplier's name, address and VAT no.
- Invoice number
- Customer's name and address
- Tax point
- Date of issue
- Description of goods
- Amount payable inclusive of VAT
- Amount of VAT
- Different rates of VAT analysed out

<i>Cobblers Ltd</i>		
21 ST JOHN'S PRECINCT, CHESTER CH1 2JA VAT REG 871 2075 34		
MR L. LEATHER 11 LLYN LANE LLANGOLLEN LL11 1LL		SALES INVOICE NO 2345 TAX POINT 5.3.18 INVOICE DATE 5.3.18
QUANTITY	DESCRIPTION AND PRICE	GROSS AMOUNT £
6	PAIR BROWN SHOES @ £60.00	360.00
12	PAIRS SHOELACES @ £2.40	28.00
2	PAIRS CHILDREN'S BLACK SHOES @ £25	50.00
		438.00
	VALUE OF STANDARD-RATED SUPPLIES INCLUSIVE OF VAT @20%	388.00
	VAT PAYABLE ON STANDARD-RATED SUPPLIES	64.00
	VALUE OF STANDARD-RATED SUPPLIES EXCLUSIVE OF VAT	324.00
	VALUE OF ZERO-RATED SUPPLIES	50.00
THANK YOU FOR SHOPPING AT COBBLERS LTD PLEASE RETAIN YOUR RECEIPT		

What is a simplified tax invoice? (consideration no more than £250)

- Supplier's name, address and VAT no.
- Tax point
- Description of goods
- Gross amount payable
- Rates of VAT analysed with gross amount for each

W.H Boot Ltd	
23 PARK STREET, ST COLUMB MAJOR TR8 7BV VAT REG 564 9921 96	
11:46:28	18AUG18

	AMOUNT PAYABLE £
DVD PLAYER	120.00
DVDs	24.00
BOOKS	<u>30.00</u>
	174.00
VALUE OF STANDARD-RATED SUPPLIES INCLUDING VAT AT 20%	144.00
VALUE OF ZERO-RATED SUPPLIES	30.00
THANK YOU FOR SHOPPING AT W.H BOOT LTD Please retain your receipt	



What is the VAT fraction?

The VAT fraction = $\frac{1}{6}$ th

VAT inclusive value of standard rated supplies = VAT element of supply

6

Why is this the VAT fraction?

GOODS
VAT @ 20%
TOTAL

£				£
1000	÷	200	=	5
<u>200</u>	÷	200	=	<u>1</u>
<u>1200</u>	÷	200	=	<u>6</u>

£
120
<u>24</u>
<u>144</u>

← 5/6 OF £144

← 1/6 OF £144



What are single/multiple supplies?

- Where supplies include a mixture of goods and or services, it is important to determine whether it is a single or multiple supply
- A supply that comprises a single service from an economic point of view should not be artificially split
- There can be situations where a transaction consists of more than one element
- Identify if one VAT liability applies to the whole transaction, or whether each component constitutes a supply in its own right
- There is no definition of single/multiple supplies in either EU or UK VAT legislation – we have to rely on case law

What if two types of supply are invoiced together?

- If one supply is clearly ancillary to the other, it is treated as a single supply
 - *e.g. food supplied in basic packaging*
- If there is a package of goods, an apportionment is carried out
 - *e.g. a food hamper – may be apportioned by cost*
- If an ‘incidental cost’ is subject to a separate contract, it is subject to VAT at its own rate
 - *e.g. delivery charge which is an optional extra*
- If an ‘incidental cost’ is mandatory, it follows the liability of the main supply
 - *e.g. delivery charge which is not optional*



What is a disbursement?

- Where a supplier acting as an agent obtains goods or services for his customer
- The supplier passes on those goods or services at cost, making no profit
- The goods or services form no part of the supplies made by that supplier
 - The supplier can therefore invoice the disbursements without VAT, or
 - The supplier **can** invoice the goods or services as an incidental supply and charge VAT

When can incidental costs be treated as disbursements?

- When conditions for disbursement are fully met
- May be suitable when the customer is not VAT registered
- Alternatively they can be treated as incidental costs and VAT charged to a VAT registered customer



Is this a disbursement?

A consultant is instructed by a client to fly to Scotland to perform some work

- The consultant cannot treat the air fare as a disbursement for VAT purposes
- The supply by the airline is a supply to the consultant, not to the client
- The recovery of outlay by the consultant represents part of the overall value of the supply of services to the client
- The consultant must account for output tax on the full value of this supply

Description	Net (£)
Consultancy work	500.00
Flight	120.00
Sub total	620.00
VAT	124.00
Total	744.00

What is a pro-forma invoice?

- A sales document which is issued in advance of a tax point
- It cannot be used to reclaim input tax and should be clearly marked 'this is not a tax invoice'



What is self billing and how does it work?

- Customer prepares tax invoice rather than supplier
- Agreement that the supplier will not issue a tax invoice for the supply
- Send a copy to the supplier who can then account for output tax
- Keep the names, addresses and VAT numbers of all suppliers who have agreed to self-billing
- Include the supplier's VAT number and all other necessary details on invoice

What is the purpose of the reverse charge?

- Counteracting fraud
- Simplifying VAT

Types of reverse charge

- **Reverse charge on intra-Community trade**
Goods Vs Services
- **Reverse charge on imports**
Postponed import VAT accounting
- **Reverse charge on triangulation by party C**
Standard across EU
- **Domestic reverse charge...**



Session 6: Input Tax

When can't you reclaim input tax?

- New motor cars
- Expenses which include input tax invoiced by a person who is not VAT registered
- Input tax attributable to exempt supplies
- Business entertainment
- Certain fittings installed in buildings by builders

What is needed for an input tax reclaim?

- A valid supplier's VAT invoice
- The supply must be made to the taxable person
- For supplies to employees...
 - the employer must have met the full cost, and
 - the supply must be for business purposes



What VAT can I claim from before registration?

- Input tax on **goods**
 - Purchases up to **four** years before registration
 - Goods must still be in hand at the date of registration
- Input tax on **services**
 - Purchases up to **six** months before registration

When is a VAT invoice not required?

No VAT invoice is needed if total expenditure is no more than £25 (including VAT) and relates to...

- Telephone calls
- Coin operated machines
- Car parking
- Toll charges



A freelance legal advisor who is not VAT registered recovers her accommodation expenses when working out of town on behalf of a firm of solicitors...

Can the firm of solicitors recover the VAT element of the accommodation costs of the freelance advisor?

Yes, if...

- the vat invoice is retained by the solicitors
- the expenses are incurred solely in connection with the advisor's work for them
- the advisor receives no payment from the firm's own client, and
- the advisor is paid on a fixed rate which is not associated with the profits of the firm

How long should records be retained?

- Six years, plus the current year
- HMRC do not need to be notified if a business keeps its records on computer, but they must be...
 - convertible into a satisfactory legible form
 - accessible on a screen



Motor Cars

What is a motor car?

A vehicle that...

- is normally used on public roads
- has more than 2 wheels
- is constructed for carrying passengers
- has rear seats and side windows

What is not a motor car?

- Caravans, ambulances and prison vans
- Vehicles that carry one person only or more than 11
- Vehicles over 3 tonnes unladen weight or payload over 1 tonne
- Vehicles constructed for a special purpose

Can input tax be reclaimed on leasing charges?

- Input tax recovery is subject to a 50% block for long term hire (more than 10 days)
- 50% block does not apply to optional additional charges such as servicing...
 - they must be separately described in the contract hire agreement and be genuinely optional



Can input tax be reclaimed on the purchase of a car?

- No, unless it is to be used exclusively for business journeys and is unavailable for private use
- Input tax **is** reclaimable on...
 - accessories which have a business use and are fitted after the car purchase
 - repairs and maintenance unless the car is used solely for private motoring by a sole trader or partner

Can input tax be reclaimed on the purchase of a car?

HMRC allow VAT recovery on a car if it is:

- Stock in trade of a motor manufacturer or dealer
- Intended to be used primarily as a taxi, driving instruction car, or self-drive hire
- A genuine “pool” car
- To be used exclusively for the purposes of your business and would not be made available for the private use of anyone
- To be used for the purposes of leasing



What is exclusively for business use?

- An important VAT case used to determine this is
- *Upton t/a Fagomatic, 2002* - the Court of Appeal considered whether a car was being wholly used for business purpose
 - Mr Upton dealt with cigarette vending machines
 - He purchased a car that he intended to use solely in the business and reclaimed the input tax
 - The car was insured for both business and private use although the insurance broker was aware that it was not Mr Upton's intention to use the car privately
 - HMRC assessed to recover the input tax
 - At a tribunal Mr Upton won, but lost in the High Court and the Court of Appeal

Can input tax be reclaimed on employee's mileage allowance?

- Yes, with reference to the total distance travelled on business and the cc of the car
- HMRC publish advisory mileage rates, or AA/RAC rates can be used
- Reclaimable amount is 1/6 of the fuel element of the allowance



HMRC fuel only mileage rates from 1.03.20

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	12p	8p	1600cc or less	9p
1401cc to 2000cc	14p	10p	1601cc to 2000cc	11p
Over 2000cc	20p	14p	Over 2000cc	13p

Hybrid cars are treated as either petrol or diesel cars for this purpose.

Advisory Electricity Rate for fully electric cars is 4 pence per mile.

What records are needed to reclaim input tax on mileage?

- A VAT invoice
 - Usually this will be a less detailed invoice
 - It must not be dated after the dates covered by the claim

What are the options if the business buys all the fuel used by a car?

- If all for business use, all the input VAT can be reclaimed
- If for both business and private use either...
 - all the input vat can be reclaimed but the fuel scale charge must be applied, or
 - only the proportion for business use can be reclaimed – fuel scale charge not needed



An employee incurs £100 of company expenditure on petrol in the quarter ended 30.09.19. 60% of her mileage is business. She drives a car with co2 emissions of 200...

What are her employer's options?

- 1. Her employer can reclaim **£16.67** – $(100 \times 1/6)$ and account for output tax of £74 $(444 \times 1/6)$
- 2. Or it can reclaim **£10.00** $(£60 \times 1/6)$ and account for no output tax

Business entertainment

What is business entertainment?

- Hospitality or entertainment provided for business purposes
- Examples...
 - Taking client out for a meal and then to theatre
 - Taking client to football game and hospitality in a viewing box
 - Going for lunch with the client to discuss business
- Where you pay for everything and the client does not pay for their attendance



When is input tax on business entertainment blocked?

- When it is provided free of charge to a person who is not an employee
- When it is provided to employees acting as hosts to non-employees

Who are employees?

- *Directors are employees*
- *Pensioners, job applicants and shareholders are not*

When is input tax on business entertainment not blocked?

- When it is provided only to employees or overseas customers for a genuine business purpose
 - ‘Overseas customers’ - anyone not ordinarily resident or carrying on business in the UK
 - Input tax is reclaimable provided it is reasonable and of no private benefit for the recipient
- Input tax at staff parties is apportioned between staff and guests



Subsistence expenses

What are subsistence expenses?

- When employees incur costs as a result of being away from their place of work on a business trip

When can you recover VAT on subsistence expenses?

- You **can't** recover VAT for a flat rate allowance
- You **can** recover VAT, provided it is for business purposes...
 - if business pays for the actual cost of meals
 - on staff canteen expenses
 - on hotel accommodation

Example...

- Employee goes away on business trip
- Employee goes for lunch with business associate
- The employee's portion of the input tax can be reclaimed - £2.78

TOTAL :	33.35
VAT	5.56

La Tasca
SPANISH TAPAS BAR & RESTAURANT

52a HIGH ST. KINGSTON-UPON-THAMES
KT1 1EU
Tel: 0208 439 1002 Fax: 0208 439 1003
VAT No: 893200741

CHK# 10 TBL# 30
SUPER STEF # 103
03/03/11 12:54:21 GUESTS 2

1 Half Cruzcampo	1.75
1 Orange Juice	2.45
1 Menu Para Niños	3.95
1 Pan de Ajo	2.75
1 R-Patatas Pobre	2.95
1 Croquetas Champin	3.75
1 Montado Jamon Que	3.95
1 Calamares	3.95
1 Cafe Doble	2.00
1 Cappuccino	1.90
1 Tarta Naranja	3.95

Terminal 5 TW000025

TOTAL : 33.35
VAT 5.56

Last Serviced 03/03/11 13:56:54

SERVICE NOT INCL

A 10% DISCRETIONARY SERVICE CHARGE WILL BE ADDED FOR PARTIES OF 8 OR MORE GRATUITY AT YOUR DISCRETION
BOOK NOW FOR MOTHER'S DAY!!!



Phones

When can a business reclaim VAT on a mobile phone and call charges used by an employee?

- VAT can be claimed by a business on the purchase of a mobile phone, and on standing charges, even where there is some private use
- All VAT can be claimed where **all** calls are for business purpose
- If a charge is made for private use, all input tax can be reclaimed, but output tax must be accounted for on the charge
- If private use is free or if calls are covered by standing charge, input tax must be apportioned between private and business

What about the use of home telephone, calls and internet?

- VAT cannot be claimed on the installation of a home telephone line
 - unless the line is solely for business use
- For a single line, where the business pays for business calls, VAT can be claimed
 - where there is a dedicated business-only line, VAT can be claimed in full
- In principle VAT cannot be claimed on the provision for home internet



Partial exemption

If a business makes taxable and exempt supplies how much input tax can it reclaim?

- It must attribute input tax as far as possible to taxable or exempt supplies
- Non-attributable input tax is split in the proportion: (taxable supplies/total supplies) x input tax
- If the irrecoverable VAT is less than £625 per month **and** less than half of the total, it can all be reclaimed
- The calculation must also be carried out at the end of each year - the annual adjustment

How do you apportion the non-attributable input tax?

- On the basis of the outputs...
- Apportion non-attributable input tax to taxable supplies
- Apportion non-attributable input tax to exempt supplies

PARTIALLY EXEMPT BUSINESS SALES:

Taxable	£2,000,000
Exempt	<u>£1,000,000</u>
	<u>£3,000,000</u>

Taxable Supplies
2/3 or 67% of £40,000 =
£26,800

Exempt Supplies
1/3 or 33% of £40,000 =
£13,200

AND INPUT TAX:

Attributed to taxable supplies	£60,000
Attributed to exempt supplies	£50,000
Non-attributable	<u>£40,000</u>
	<u>£150,000</u>

Attributed to taxable	£60,000
Apportioned to taxable	<u>£26,800</u>
Total reclaimable	<u>£86,800</u>



Common examples of special methods

- Inputs based methods
- Transaction based methods
- Floor space based methods
- Headcount based methods
- Time spent based methods
- Sectorised methods



Session 7: The VAT return

What length are VAT return periods?

- Usually quarterly
- Choose or change stagger period
- Monthly where repayments expected
- Smaller businesses may prepare annual returns and make payments on account (monthly or quarterly)
- Special VAT periods

What is the submission deadline?

- Must be with HMRC by the end of the following month
- Businesses making payments electronically have up to a seven-day extension

Who should submit VAT returns online?

- All businesses with very few exceptions
- Payments may be made by direct debit
- A business submitting returns online must make payment electronically



Who must make payments on account?

- Businesses with a total VAT liability in a year up to 30/9, 31/10 or 30/11 greater than £2.3 million
- HMRC will notify a business that it is in the scheme

How are payments on account calculated?

- Interim payments made in 2nd and 3rd months of VAT quarter
 - At 1/4 of annual VAT liability
- Payment of balance made with VAT return



How do you complete the VAT return?

VAT due in this period on sales and other outputs (Box 1):*	<input type="text"/>	
VAT due in this period on acquisitions from other EC Member States (Box 2):	<input type="text"/>	
Total VAT due (the sum of boxes 1 and 2) (Box 3):	Calculated value	
VAT reclaimed in this period on purchases and other inputs, (including acquisitions from the EC) (Box 4):	<input type="text"/>	
Net VAT to be paid to HM Revenue & Customs or reclaimed by you (Difference between boxes 3 and 4) (Box 5):	Calculated value	
Total value of sales and all other outputs excluding any VAT. Include your box 8 figure (Box 6):	<input type="text"/>	
		Whole pounds only
Total value of purchases and all other inputs excluding any VAT. Include your box 9 figure (Box 7):	<input type="text"/>	
		Whole pounds only
Total value of all supplies of goods and related costs, excluding any VAT, to other EC Member States (Box 8):	<input type="text"/>	
		Whole pounds only
Total value of all acquisitions of goods and related costs, excluding any VAT, from other EC Member States (Box 9):	<input type="text"/>	
		Whole pounds only



What goes in box 1 of the VAT return?

VAT on sales and on...

- supplies to staff
- goods taken out of the business
- gifts
- fuel for private motoring
- self-billing invoices received

What goes in box 4?

Reclaimable input tax, which can be recovered...

- on the return for the period in which the time of supply falls, and
- if a tax invoice is held when the return is submitted

What goes in boxes 6 & 7?

- Box 6: Total sales including exempt supplies
- Box 7: Total purchases



What should be excluded from boxes 6 & 7?

Box 6
<ul style="list-style-type: none">• VAT• New share capital• Insurance claims• Grants

Box 7
<ul style="list-style-type: none">• VAT• Wages• PAYE• Dividends• Loan repayments• MOT certificates• Road tax• Business rates

What is 'Making Tax Digital' (MTD)?

- Introduced for VAT from 1 April 2019
 - October 2019 for more complex businesses
- HMRC Notice 700/22
- Three main elements:
 - Digital record-keeping
 - Digital submission
 - Digital links

UK Training half-day course – 'Making Tax Digital'



Is MTD for VAT compulsory?

- Yes, if you are VAT registered and your turnover exceeds the VAT registration threshold (£85,000)
- Can sign up voluntarily if VAT registered and under the threshold
- Very few exemptions
- Applies from first VAT return **starting** after 1 April 2019
- Six month deferral for larger/complex businesses
- Sign up for MTD – ten-week ‘window’

What else do you need to know?

- ‘API’ (bridging software) – simplest solution
- Larger businesses likely to need specialised advice
- ‘Soft landing’ period of one year for digital links
- New points-based system for penalties
- Supplementary data for VAT returns likely
- Other taxes – not before April 2021?
- More real-time approach for other taxes



Session 8: Bad Debts and Penalties

Can you reclaim the output tax on a bad debt?

- Yes, bad debt relief is available six months after the due date for payment
 - e.g. if 30 days credit is offered, then 6 months and 30 days later
- You 'write off' the debt and reclaim the output tax previously paid in box 4 of a VAT return
- You have up to 4 ½ years after the due date of payment to do this

What if you don't pay an invoice on which you have recovered the input tax?

- At least six months from whichever is later of...
 - the time of supply, or
 - the due date of payment
- Adjustment to be made in Box 4 of your VAT Return
- You have not paid the supplier
- You must repay your input tax



Which errors can be corrected by adjusting the VAT return?

- Any error up to £10,000
- No error above £50,000
- Between £10,000 and £50,000 if the error is less than 1% of box 6
- Otherwise disclose on form VAT 652
- An error can only be disclosed within four years

What financial penalties can be incurred?

- Default interest
- Default surcharge
- Penalties for errors
- Failure to register for VAT

What is default interest?

- Interest on VAT recovered by assessment including notices of voluntary disclosure
- Only applied where it represents genuine commercial restitution
- It is not applied when there is no loss to the exchequer
- Interest is not charged on errors adjusted on the VAT return



A company is found not to have charged VAT on a management charge to a separately-registered subsidiary and on a sale of a van to an employee...

Should default interest be charged?

- Only on the VAT not charged to the employee
- There is no loss to HMRC on the transaction with the subsidiary

How does the default surcharge operate?

- At the first default, a surcharge liability notice is issued, expiring in one year
- At the second default, a penalty of 2% is charged and the notice is extended for one year
- Penalties then rise to 5%, 10% and 15%
- No penalty is charged at the 2% and 5% rates if it is less than £400



Which penalties apply to returns?

- **30% penalty** - Careless action that leads to underpayment or overclaim
 - **70% penalty** - Deliberate but not concealed action
 - **100% penalty** - Deliberate and concealed action
-
- The penalty is based on the 'Potential Lost Revenue', being the VAT understated or overclaimed
 - The penalty may be reduced if the error is disclosed to HMRC
 - A penalty for 'careless' behaviour may be suspended in whole or in part

Which penalties apply to failure to register for VAT?

- **30% penalty** - Non-deliberate failure to notify
 - **70% penalty** - Deliberate but not concealed action
 - **100% penalty** - Deliberate and concealed action
-
- The penalty is based on the 'Potential Lost Revenue,' which is the net VAT...
 - from the correct date of registration
 - to the date the application to register was disclosed to HMRC
 - The penalty may be reduced or 'mitigated'



When can you rely on advice given by HMRC?

- Where you have sought a ruling under the Non-Statutory Clearance Team
- When HMRC provide incorrect advice, they will be bound by it provided...
 - the advice was clear, unequivocal and explicit,
 - you made full disclosure of the facts,
 - you relied on the advice, and
 - as a result you underpaid or overclaimed VAT
- You must then account for VAT correctly from the date of notification



Session 9: International Supplies

What are EU sales and EU acquisitions?

EU Sale (Removal) – Sale of goods in the EU

EU Acquisition - Purchase of goods from the EU

How is VAT accounted for on EU sales?

- Zero-rated
- Include the customer's VAT number on the sales invoice
- The goods must leave the UK and arrive in another member state

Is input tax charged on EU acquisitions?

- They are zero-rated by the supplier in other member state



What is acquisition VAT?

- VAT is calculated by the customer on sterling value of the acquisition
- Include in box 2 of the VAT return
- Add to Box 4 so it has a nil net effect on VAT paid

Do you zero-rate a supply to a private individual in another EU country?

- No, zero-rating applies only when the customer is VAT registered
- Instead, distance selling rules apply
- UK VAT must be charged up to a threshold
- Suppliers with large amounts of distance sales must charge VAT in the customer's country

How is VAT accounted for on exports and imports?

- **Exports** – Zero-rated
- **Imports** – Input VAT is charged



How is input tax on imports calculated?

- HMRC raise a C79 once the formalities are complete
- It is calculated on the customs value which comprises:
 - the sterling value of the goods
 - all associated expenses
 - duties payable on importation
- You can recover the input tax on the C79 if you make taxable supplies

Where is the place of supply for international services?

- **B2B supplies** – Supplies to businesses are taxed where the **customer** belongs
- **B2C supplies** – Supplies to consumers are taxed where the **supplier** belongs

What are the four possible treatments of the supply of international services?

1. UK VAT may be charged
2. The supplier may need to register for VAT in an EU country and charge VAT there
3. The customer may need to apply the reverse charge
4. The supply may be outside the scope of UK and EU VAT



How does a UK customer operate the reverse charge?

- The overseas supplier does not charge VAT
- The customer calculates VAT at 20%
- The VAT is added to Box 1 of the return
- If the customer makes taxable supplies it is also added to box 4

Are there any exceptions to the rule for international services?

- Land related services
 - taxed where the land is
- Admission to educational or entertainment events and exhibitions
 - taxed where the event takes place
- Other exceptions include
 - transport services
 - intangible services
 - intermediary services
 - work on goods
 - Broadcasting, Telecomms and E-Services (BTE)

APPENDIX 1 – Fuel scale charges

1 May 2019 – 30 April 2020

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2019.			
CO2 band	VAT fuel scale charge, 3 month period (£)	VAT on 3 month charge (£)	VAT exclusive 3 month charge (£)
120 or less	147	24.50	122.50
125	222	37	185
130	236	39.33	196.67
135	250	41.67	208.33
140	265	44.17	220.83
145	280	46.67	233.33
150	295	49.17	245.83
155	310	51.67	258.33
160	325	54.17	270.83
165	340	56.67	283.33
170	354	59	295
175	369	61.50	307.50
180	384	64	320
185	399	66.50	332.50
190	414	69	345
195	429	71.50	357.50
200	444	74	370
205	458	76.33	381.67
210	473	78.83	394.17
215	487	81.17	405.83
220	502	83.67	418.33
225 or more	517	86.17	430.83

APPENDIX 2 – Case study answer

Summary of Sales and Purchases made during the first VAT quarter

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<hr/>	<hr/>
	442,000	
	<hr/>	<hr/>
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<hr/>	<hr/>
	413,000	
	<hr/>	<hr/>

How should this be presented on the VAT Return?

What amount would appear in box 1 of the VAT Return?

82,500

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>442,000</u>	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000 ^❶
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	

❶ - include reverse charge service output tax B2B supply in box 1

What amount would appear in box 2 of the VAT Return?

6,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>442,000</u>	<u></u>
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000 ②
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	<u></u>

② - acquisition tax on EU acquisition

What amount would appear in box 4 of the VAT Return? **70,600**

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	442,000	
EXPENDITURES		
Trade purchases UK	250,000	50,000 ³
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200 ³
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

³ - input tax in box excludes items of expenditure where VAT recovery is blocked

What amount would appear in box 6 of the VAT Return? 445,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	④ 442,000	
	435,000	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000 ⑤	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	

④ - Box 6 omits any items of income which are outside the scope of VAT

⑤ - Box 6 must include the net B2B service supply as reverse charge output tax of £2000 has been included in Box 1

What amount would appear in box 7 of the VAT Return?

375,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	435,000	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	⑥
Rates	2,000	⑥
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

⑥ - Box 7 excludes any purchases which are outside the scope of VAT

What amount would appear in box 8 of the VAT Return?

0

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	<hr/> 435,000	<hr/>
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<hr/> 413,000	<hr/>

Nothing in box 8 as no EU sales

What amount would appear in box 9 of the VAT Return?

30,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	435,000	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

⑦ - Box 9 records net EU acquisitions

UK Training (Worldwide) Limited
17 Duke Street
Formby
L37 4AN

w www.uktraining.com
t 01704 878988
e info@uktraining.com

