



VAT

**VAT**  
Factsheet



**rouse**  
Chartered Accountants

# 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.

In this factsheet we highlight some of the areas that you need to consider.

It is however important for you to seek specific professional advice appropriate to your circumstances.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at [info@rousepartners.co.uk](mailto:info@rousepartners.co.uk)

## What is VAT?

### Scope

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 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.

## 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 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

HMRC is phasing in its landmark Making Tax Digital (MTD) regime, which will ultimately require taxpayers to move to a fully digital tax system. Regulations have now been issued which set out the requirements for MTD for VAT. Under the new rules, businesses with a turnover above the VAT threshold (currently £85,000) must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software.

The new rules have effect from 1 April 2019, where a taxpayer has a 'prescribed accounting period' which begins on that date, and otherwise from the first day of a taxpayer's first prescribed accounting period beginning after 1 April 2019.

HMRC is piloting MTD for VAT during 2018, ahead of its introduction in April 2019.

Keeping digital records and making quarterly updates will not be mandatory for taxes other than VAT before April 2020, although businesses below the VAT threshold which have voluntarily registered for VAT can opt to join the scheme.

As with electronic VAT filing at present, there will be some exemptions from MTD for VAT. However, the exemption categories are tightly-drawn and 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:

- ▶ 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 above please contact us.

# Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

t: 01494 675321

e: [info@rousepartners.co.uk](mailto:info@rousepartners.co.uk)

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Rouse Partners LLP  
55 Station Road  
Beaconsfield  
Buckinghamshire  
HP9 1QL

t: 01494 675321  
e: [info@rousepartners.co.uk](mailto:info@rousepartners.co.uk)  
[www.rousepartners.co.uk](http://www.rousepartners.co.uk)

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