VAT Do's and Don'ts

✓ Do:

- Keep a monthly record of your turnover – late registration can result in severe penalties
- Notify your local HM Revenue & Customs 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 scale charge
- Recover VAT on inputs from other EC countries
- Deduct any VAT you are claiming back as bad debt relief
- Deduct any 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 not usually recoverable except in some special cases
- Claim the VAT paid on goods or services used for private purposes. Where there is an element of private use (e.g. telephone) an appropriate percentage should be claimed
- Claim the VAT paid on entertaining
- 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 about VAT and your business. Contact us today for advice and information.

Our Services

Business Planning
- Business start-up planning and advice
- Strategic and business planning
- Financial management
- Financial information systems
- Computer systems advice

Taxation Advice
- Self assessment
- Personal tax
- Business tax
- Company tax
- Capital gains tax
- Inheritance tax
- HM Revenue and Customs investigations
- Value Added Tax
- PAYE and national insurance compliance

Accounting
- Preparation of annual accounts
- Preparation of periodic management accounts
- Book-keeping services
- Maintaining PAYE and VAT records and associated returns

Company Secretarial
- Preparation and filing of statutory returns
- Preparation of minutes and resolutions
- Company formation
- Company searches

Please contact us for further information

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YOUR 2007/08 GUIDE TO

Value Added Tax

Alton & Co

Chartered Certified Accountants
Registered Auditors

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 £64,000, or if there are reasonable grounds for believing that your turnover will exceed £64,000 in the next 30 days.

Turnover below the £64,000 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:

1. Standard rated — 17.5%
2. Reduced rate — 5%
3. Zero rated — e.g. exports, most food, books
4. Exempt — e.g. insurance, education and health
5. 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 HM Revenue & Customs, 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 are 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 businesses with annual tax-exclusive turnover of not more than £1,350,000 that have been registered for at least a year, and where in the last twelve months input tax has not exceeded output tax. New businesses whose turnover is not expected to exceed £150,000 may join the scheme as soon as they are registered.

✓ **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 over to HM Revenue & Customs 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, and no more than £187,500 of total business income.

✓ **Scheme advantages:**

The scheme saves time by removing the need to calculate and record output and input tax, when calculating the VAT due to HM Revenue & Customs.

Key VAT issues

Returns and payment of VAT

Every quarter, a VAT return is issued and must be submitted to HM Revenue & Customs no later than thirty days from the end of the quarter. VAT may be paid online. Businesses which anticipate regular VAT repayments may request monthly returns.

The cost of not complying

The compliance regime includes penalties for failure to notify HM Revenue & Customs 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 next five quarters in order to avoid surcharges that start at 2%, although there is a *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 VAT element of mileage allowances, as long as VAT receipts are provided to evidence the payment of the fuel element.

Bad debts

Subject to appropriate records and evidence, VAT may be reclaimed on 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.

Fuel scale charges

The fuel scale charge applies to all business cars which are used for private motoring. The fuel scale charge cost per annum ranges from £109-£254, depending on the car s carbon dioxide emissions.