



VAT

VAT is a tax on consumer expenditure and therefore, generally, the role of business in the UK is to act as a tax collector. In principle the affect of the tax on businesses should be neutral, but due to the complexity of the legislation, there are many pitfalls for the unwary.



Should I be registered?

If your business is making taxable supplies in excess of the annual VAT registration limit (£70,000 pa from April 2010), then the answer is certainly yes. It is also possible to register smaller businesses and, in some cases, this may be beneficial for those

businesses. Failure to register at the correct time can be very expensive in terms of VAT penalties. If you have any doubts as regards your registration position we can help you.

Record Keeping



There are strict guidelines as regards the minimum records that a business must maintain to meet the requirements of the VAT legislation. The requirement includes the need to keep copies of all VAT invoices issued and all purchase invoices on which VAT has been claimed. It is important at an early stage to seek advice as regards the records that must be maintained to meet the requirements.

Sales and Output Tax

Currently there are three rates of tax in operation in the UK:-

1. Standard rate - 20%
2. Reduced rate - 5%
3. Zero rate - 0%

In addition, certain types of supply can either be exempt for VAT purposes or outside the scope of VAT. It is clearly important, therefore, that you are absolutely clear as regards the VAT status of your sales to ensure you are charging at the correct rate. Monahans are able to help on this issue.



Expenditure and Input Tax



The same rates as set out in the Sales and Output section above apply, of course, to Input Tax. In general VAT charged to you on a business transaction can be reclaimed. However, there are exceptions to this rule including the restrictions on reclaiming all input VAT for businesses which are involved in supplies that are exempt for VAT. It is very important to take advice to ensure the input VAT you are reclaiming is correct and complete.

Completion of the VAT Return

The key to easy completion of either the quarterly, monthly or annual VAT return is the maintenance of good records. The returns are not difficult if the records are well designed to produce the information required on the form. Returns need to be

submitted within one month of the VAT period end and penalties apply for late submission. We can, of course help with the preparation of returns if required to do so, or can provide the necessary training.

Common Errors

Two of the most difficult areas for VAT purposes are businesses which are involved in making exempt supplies and businesses involved in land and property transactions including the construction industry. The rules are particularly complex in these areas and specialist advice is a necessity.

We also commonly see the following errors:-

- The reclaiming of input VAT on private as opposed to business transactions.
- Failure to account properly for VAT on private mileage which is dealt with by applying the VAT scale charge.
- Reclaiming VAT on the purchase of a motor car for your business. By a quirk of the legislation the purchase of a car is one instance where input VAT is charged to a business but cannot, except in exceptional circumstances, be reclaimed.
- Failure to use the partial exemption rules to full advantage which can sometimes result in a loss of input VAT which is legitimately reclaimable.



For further advice and assistance

Monahans can assist you with your VAT.

Please contact **Mike Sawyer** at our Swindon office on **01793 818300**

or email on **michaels@monahans.co.uk**