

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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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

International supplies

Case study

Bad debts and penalties

Day 1 & 2

The room will open from **13:15**

The course will commence at **13:30**

The course will close by **16:30**

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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?

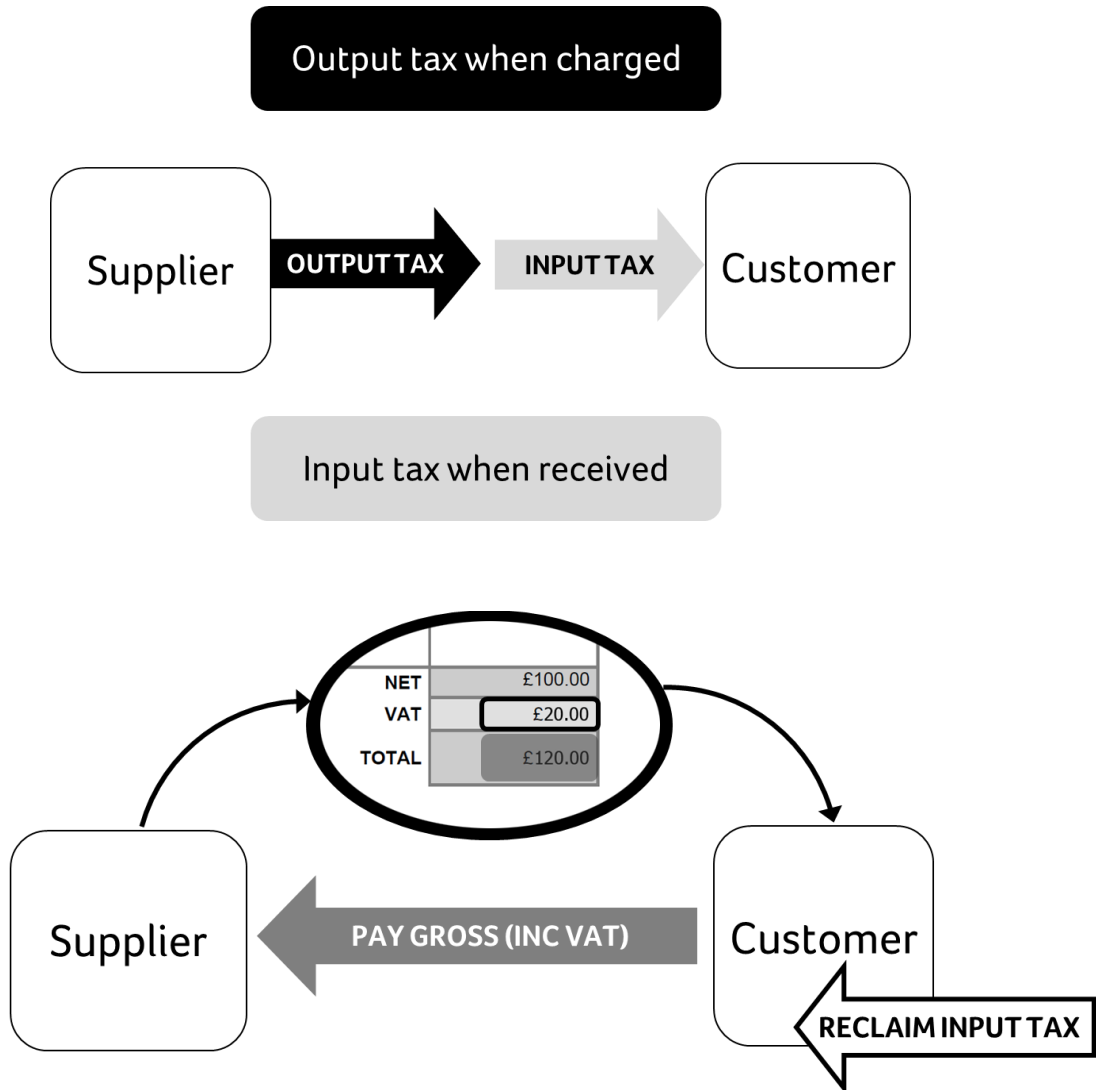
- Suppliers charge output tax
- VAT registered customers can recover input tax
- VAT is borne by the final consumer
 - Usually an individual, but not always
- All EU countries operate a similar but not identical system



Impact of Brexit

- EU/UK enter transition period until end of 2020
- 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 if you exceed the threshold temporarily

Can businesses voluntarily register?

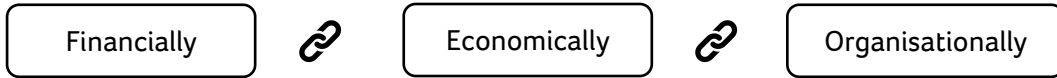
Businesses can voluntarily register if taxable supplies are below threshold

- 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



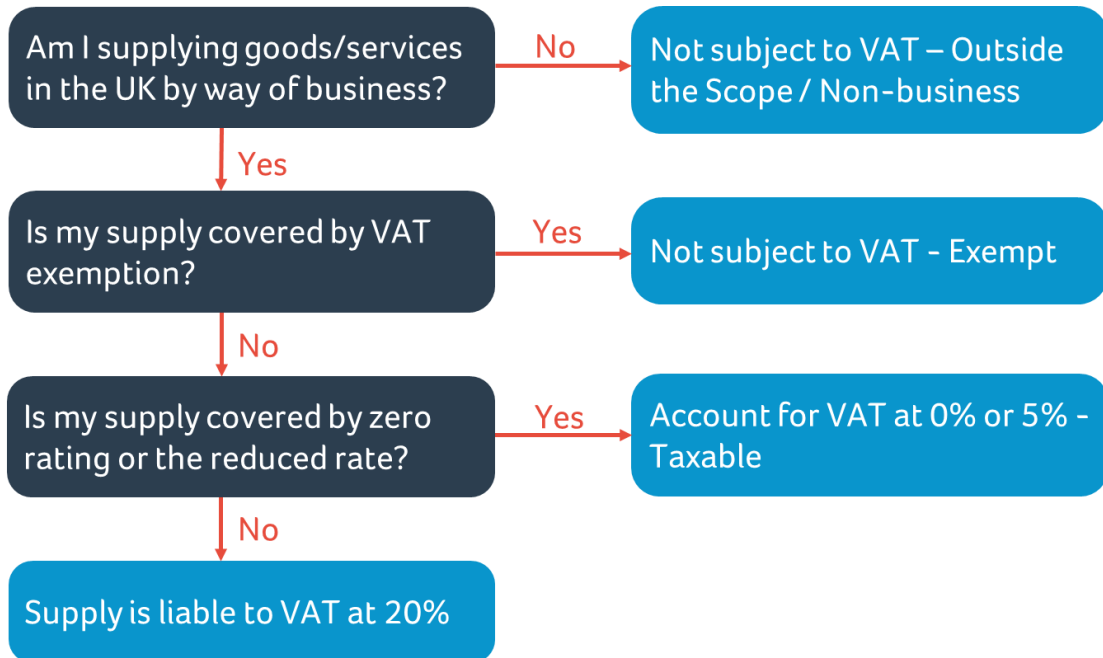
How does group registration work?

- 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				
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

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



		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 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

NEW - reduced rate for the hospitality sector

- 5% temporary reduction from 15/7/20 to 12/01/21
- Covers supplies of meals and non-alcoholic drinks eaten in and hot takeaway foods and drinks
- Applies to restaurants, cafes, pubs, and similar establishments
- If terms and conditions state price is inclusive of VAT the business could retain the difference in VAT rate or reduce price
- Reduced rate only applies to the retail sale to the consumer
- Reduced rate also applies to hotel and other accommodation in the hospitality sector
 - Special rules relating to advance deposits and stays straddling the VAT rate change date
- Reduced rate also applies to admissions to certain attractions



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

Exempt 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

Zero-rated supplies
<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

Scenario 1

A farmer supplies live sheep

What rate of output tax should be applied?

Scenario 2

A restaurant makes out a bill for £30 plus an optional service charge of £3.

Can the customer reclaim input tax on the whole £33 or just £30?



Scenario 3

A landlord rents a building out to a shopkeeper and has opted to tax the building and subsequently sells it.

What rate of output tax should be applied to the sale?

Scenario 4

A VAT registered supplier donates a gift of goods to a registered charity for sale.

What rate of output tax should be applied by the charity to the sale of those goods?

Scenario 5

A solicitor provides free advice to a client.

What rate of output tax should be applied?



Scenario 6

ABC Ltd buys 150 bottles of wine costing £2,400 and gives 50 different customers 3 bottles each.

Should ABC Ltd account for output tax?

Can ABC Ltd reclaim the input tax on the purchase of the wine?

Scenario 7

XYZ Ltd buys 100 bottles of wine costing £1,600 and gives 25 different customers 4 bottles each

Should XYZ Ltd account for output tax?

Can XYZ Ltd reclaim the input tax on the purchase of the wine?



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

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



Scenario 8

Goods are delivered to a customer on 27th April.
The invoice is sent on 3rd May.

When is the time of supply?

Scenario 9

Goods are delivered to a customer on 27th April.
The invoice is sent on 12th May.

When is the time of supply?



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 31.1.20	Invoice date 19.2.20	
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 5.3.20 INVOICE DATE 5.3.20
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	18AUG20

	AMOUNT PAYABLE £
DVD PLAYER	120.00
DVDs	24.00
BOOKS	30.00
	<u>174.00</u>
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*



Scenario 10

A VAT registered butcher supplies fresh meat in a carton

What rate of output tax should be applied to the carton?

Scenario 11

Delivery of raw leather by a tannery to a children's shoe manufacturer which the tannery has agreed to make at time of order

Should the tannery charge output tax on the delivery?

Scenario 12

A high street bookshop supplies books for £55. The customer separately requests that the books be posted to her, and the store charges £3 for delivery.

Is the cost of delivery standard-rated?



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



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

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

Scenario 13

An employee submits a number of invoices with his monthly expense claim.

Is this invoice from a restaurant a valid VAT invoice?

HOME HOUSE 20 Portman Square London W1H 9HF			
THE RESTAURANT			
SRV	80 TABLE	123/1	TIME 22:55
1	HILDON		3.25
1	ARTI SOUP		5.95
1	TIGER PRAWNS		12.50
1	*****		0.00
1	BREAST OF DUCK		17.50
1	WELSH LAMB		18.75
1	DAUPHINOISE		2.75
1	ROAST PARSNIPS		2.75
1	HONORE DE BERTIC		19.50
2	PUDDING TROLLEY		11.90
1	Main Away		0.00
2	CAPPUCCINO		5.90
GRAND TOTAL			100.75
VAT ANALYSIS			
RATE %	NET	TAX	TOTAL
20.00	65.00	13.00	78.00
20.00	2.71	0.54	3.25
20.00	16.25	3.25	19.50



Scenario 13

An employee submits a number of invoices with his monthly expense claim.

Is this invoice from HB Electricals a valid VAT invoice?

TAX INVOICE 57

From **HB ELECTRICALS** Date 02/08/2015
4 HAYWORTH ROAD
CROSBY, L22 4AN ²

To **Smiths & Son Ltd** Elaine

VAT Regd Number
618 5377 19

Quantity	Description	Unit Price	Amount
1x	4gb USB Memory Stick	£24	24.00
2x	Wireless keyboard	£19.99	39.98
1x	28" Widescreen monitor	£180	180.00
			+ VAT
			Sub Total
			292.78

CROXLEY V.A.T. @% / inclusive
 TERMS _____ Delete and complete as applicable. **TOTAL**

Scenario 13

An employee submits a number of invoices with his monthly expense claim.

Is this invoice from HB Electricals a valid VAT invoice?

SHELL (SHELL HORSFORTH TEL-01132 395900)
 BROADWAY RING ROAD, LEEDS, LS18 4DF

2 T02 C106/8609 16:14 7-03-15 ST.999

PUMP PRODUCT	LITRES	VALUE (£)
02 DIESEL	55.41	62.00 *
SALE TOTAL	£	62.00
		62.00

ISSUE NUMBER 3
 EXPIRY DATE 09/11

VAT %	INCLUSIVE	EXCLUSIVE	VAT
1 20.00	62.00	51.67	10.33

SHELL HORSFORTH VAT No:943 469 69C
 Shell UK Limited VAT No:235 763 255

All products indicated with * are sold on behalf of Shell;
 VAT No 235 763 255

SHELL U.K. LIMITED
 SHELL CENTRE, LONDON SE1 7NA
 CUSTOMER SERVICE CENTRE-0800 7318888



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



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 1.09.20

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	10	7p	1600cc or less	8p
1401cc to 2000cc	12p	8p	1601cc to 2000cc	10p
Over 2000cc	17p	12p	Over 2000cc	12p

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 30.09.20. 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 £72.67 $(436.00 \times 1/6)$
- 2. Or it can reclaim **£10.00** $(£60.00 \times 1/6)$ and account for no output tax



Fuel scale charges: 1 May 2020 – 30 April 2021

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2020.			
CO2 band	VAT fuel scale charge, 3 month period (£)	VAT on 3 month charge (£)	VAT exclusive 3 month charge (£)
120 or less	144	24.00	120.00
125	218	36.33	181.67
130	231	38.50	192.50
135	246	41.00	205.00
140	261	43.50	217.50
145	275	45.83	229.17
150	290	48.33	241.67
155	305	50.83	254.17
160	319	53.17	265.83
165	334	55.67	278.33
170	348	58.00	290.00
175	362	60.33	301.67
180	377	62.83	314.17
185	392	65.33	326.67
190	406	67.67	338.33
195	421	70.17	350.83
200	436	72.67	363.33
205	450	75.00	375.00
210	464	77.33	386.67
215	479	79.83	399.17
220	493	82.17	410.83
225 or more	508	84.67	423.33



Scenario 14

An employee using her own car travels 1,000 miles on business. The car is 1,600cc and uses petrol. She submits a mileage claim for 45p per mile.

How much input VAT can the employer reclaim?



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





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>



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
- Submission by end of the following month

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 1/24 of annual VAT liability
- Payment of balance made with VAT return



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

Scenario 15

A company receives goods on 27th September. It receives an invoice dated 15th October. It prepares quarterly returns and submits its September return on 20th October.

On which return can it recover the input tax?

Scenario 16

A company receives goods on 27th September. It receives an invoice dated 15th October. It prepares quarterly returns and submits its September return on 12th October.

On which return can it recover the input tax?



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



Session 8: 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
- Postponed Accounting for Import VAT introduced as option from 1st January 2021

Scenario 17

A UK company sells and delivers goods to a VAT-registered customer in Italy and a private individual in Spain

How is each transaction taxed?

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



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)



Scenario 18

A UK solicitor provides legal advice to a business in Denmark and a private individual in France

How is each transaction taxed?

Scenario 19

London solicitors' fees regarding the sale of a piece of land in France to an Italian manufacturer

Where is this transaction subject to VAT?

Scenario 20

A UK business holds an exhibition in Germany and charges attendees for entrance. Among the attendees are a German business and an Austrian private individual.

What is the VAT treatment?



Case Study:

Summary of Sales and Purchases made during the first VAT quarter

INCOME	£	VAT
Standard rated sales to UK customers	400,000	
Reduced rated UK sales	10,000	
Goods sold to customers in America	20,000	
Goods sold to company in France	10,000	
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<hr/> 452,000 <hr/>	<hr/> <hr/>
EXPENDITURES		
Trade purchases UK	250,000	
Car for salesman	20,000	
UK entertainment:		
Staff	1,000	
Overseas customers	2,000	
Overseas suppliers	2,000	
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	
Consultancy services from USA	10,000	
Goods bought from Japan	60,000	
	<hr/> 413,000 <hr/>	<hr/> <hr/>



How should this be presented on 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 amount would appear in box 1 of the VAT Return? _____

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

What amount would appear in box 4 of the VAT Return? _____

What amount would appear in box 6 of the VAT Return? _____

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

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

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



Session 9: 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



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 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

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

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



Scenario 21

On 14th March 2018 a company discovers that it underpaid VAT of £35,000.
Its next return is dated 31st March 2018 and the figure in Box 6 is £3 million.

Can it correct the error on its return dated 31st March 2018?



APPENDIX 1 – 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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<hr/>	<hr/>
	452,000	
	<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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	452,000	
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 ^❶
Goods bought from Japan	60,000	12,000
	413,000	

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	452,000	
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 ²
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

² - acquisition tax on EU acquisition

What amount would appear in box 3 of the VAT Return?

88,500

(Sum of boxes 1 & 2)

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>452,000</u>	<u> </u>
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
	<u>413,000</u>	<u> </u>

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

What amount would appear in box 5 of the VAT Return?

17,900

(Difference between boxes 3 and 5)

What amount would appear in box 6 of the VAT Return? **455,000**

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	<div style="border: 1px solid black; padding: 2px; display: inline-block;"> 5,000 2,000 ④ 452,000 </div>	
		<div style="border: 1px solid black; padding: 2px; display: inline-block;"> 445,000 </div>
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	<div style="border: 1px solid black; padding: 2px; display: inline-block;"> 10,000 ⑤ </div>	2,000
Goods bought from Japan	60,000	12,000
	413,000	

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	445,000	
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?

10,000

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	445,000	
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	

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
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	445,000	
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

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