

VAT UPDATE – IMPORTANT CHANGES

The following article provides a brief overview of a number of key VAT changes which are due to come into play shortly, and outlines the potential impact of each on your business.

Penalties

A new framework for penalties comes into effect on 1st April 2009. The scattered system of penalties across different taxes has now been consolidated into one common system, where no penalty will occur if it can be established that you have made a simple mistake. However, subject to mitigation, penalties will apply if the mistake occurred due to a 'failure to take reasonable care' or a deliberate error. HMRC say that the taxpayer will be expected to seek advice on their tax position from either HMRC or a 'competent adviser', and that the level of knowledge expected from a small business will be less than from a larger business. Expect many disputes during the next few months over HMRC's definition of 'reasonable care'.

Time limits

As announced in the 2008 Budget, the time limit for taxpayers' VAT claims or assessments by HMRC is being increased to four years from the present three. There will be a one year transitional period from 1st April 2009 with the new limits operating from 1st April 2010.

Hire of staff

The staff hire concession, whereby a temporary staff agency is able to charge VAT only on its commission and not on the worker's wages, has now been removed. From 1st April 2009 such agencies will be required to charge VAT on the full value of the staff hire, unless the worker is transferred onto the recipient's payroll. This will increase VAT costs considerably for charities and businesses in the financial, health and education sectors, to name but a few.

Back claims for VAT

The window of opportunity for making back-claims for VAT pre-1997 has now closed. From now on, claims for un-recovered VAT will be limited to four years.

Cross-border invoicing

Following a 12 month transitional period, the new rules for services when issuing invoices to customers in other EU member states have now come into force. You are now required to quote your customer's own VAT number on your sales invoice if they are registered for VAT. This finally aligns the rules for services with those for goods. However, for services, you must also include a statement on the invoice advising your customer that the service may be subject to a reverse charge in their own VAT returns.

Online filing

Online filing of VAT returns will become compulsory from 1st January 2010. We advise that you prepare for this now by ensuring your business systems are up and running early.

VAT appeals

The current procedures for appealing against HMRC's decisions on VAT matters are being brought in-line with the consolidation of the Tribunals service for all taxes. New procedures and new facilities for internal reviews have been introduced, along with additional methods for appeal dependant on your circumstances. Unfortunately, the ability for successful appellants to claim Costs for VAT appeals is being withdrawn unless you opt-in for Costs on both sides.

If you require further advice please do not hesitate to contact London office VAT partner Simon Newark, or your usual UHY Hacker Young partner.