

Coping with the VATman

If you are, or are about to be, registered for VAT you can expect regular, routine VAT assurance visits. These are carried out by HM Revenue & Customs (HMRC) Officers and are designed to enable the tax authorities to check that you are accounting for VAT, due to the Government, in the correct way.

You should not be complacent about the Government's public stance of '...the right tax at the right time...'. The political agenda is to collect tax and this is pursued vigorously.

How long will the visit from HMRC take?

The visit could last anything from a few hours to several days depending on the size and complexity of your business. Contrary to rumour, VAT officers do not stay indefinitely until they find something wrong.

Can I postpone the visit if I'm busy?

Yes. HMRC do generally make allowances for busy periods in a business and are prepared to rearrange a visit for a later date. However, we would not advise repeated postponements or attempts to avoid HMRC. This could lead to the assumption that you have something to hide, even if you have not, and result in a closer inspection of your affairs.

Are all visits from HMRC the same?

No. Most will be full inspections, although some will be in connection with a query over your most recent VAT return. This usually happens when a VAT return is different in some way to the norm for your business. This generally only occurs where you are claiming a net repayment of VAT.

You may also be contacted in connection with a general enquiry unrelated to your business. Such enquiries are carried out to give HMRC information on trading activities in general, or are attempts to follow up specific enquiries from another VAT office; perhaps concerning one of your customers or suppliers.

So what happens during the visit? Do I have to be present?

Generally no, although the HMRC Officer will wish to talk to someone who knows about your business and it could save lengthy future correspondence if you could answer the questions at the time.

The Officer will interview you initially about your trading activities and establish/review the basic details of your business. Following this, the Officer will examine the books and records to confirm that the VAT amounts are properly accounted for and that necessary calculations are correctly carried out.

On completing the review, the Officer will generally discuss with you any VAT issues that have arisen, in particular, any errors that were found. The officer should tell you what will happen next, for example, they may write to you to clarify any outstanding points, or confirm their intention to issue an assessment for the errors discovered.

Will I get charged interest and penalties on an assessment?

Yes. The assessment will automatically include interest and penalties at the appropriate rates. However, before issuing a penalty the Officer is now required to establish the reasons for the mistake at the time and determine whether it was careless or if the mistake occurred despite you taking 'reasonable care'.

What is considered as 'reasonable care'?

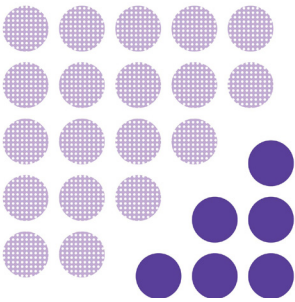
This is a difficult question with no easy answer. HMRC will expect to see regular, routine procedures in place and evidence that you sought advice on anything you were not certain about. Having accounting systems in place and documented procedures can help but we urge you to seek advice before entering into any such discussions with HMRC as, needless to say, HMRC's view may differ from yours.

What do I do if I find errors myself?

You must disclose them to HMRC immediately. Accepted as an 'unprompted disclosure' this will automatically absolve you from incurring any penalties that would otherwise be raised, even if the error was deemed careless.

If the total of all the errors that you have found is worth £10,000 VAT or less, you can adjust them on the next VAT return yourself without any undue consequences. Be warned that adjusting the next VAT return without disclosing the error to HMRC when it was originally found is not an 'unprompted disclosure' and could still result in a penalty.

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Could I ignore errors and hope that HMRC do not spot them?

This is unwise. If HMRC do discover the error, you will be assessed for the tax, plus interest and penalties. Additionally, if HMRC suspect that you knew about the errors but deliberately concealed them, you may be liable to a charge of fraudulent conduct.

If I get a clean bill of health from a VAT visit, does this mean that everything is OK?

No, unfortunately not. HMRC maintain that a VAT visit is not a full audit. Errors can still be discovered on later visits and assessments raised.

If a particular issue is fundamental to your VAT position, and an error was not identified by an Officer, it may be possible to argue against an assessment on the grounds of 'misdirection by omission'. Very few cases have been won on these grounds however, although you may escape any penalties being raised.

How are innocent accounting errors treated?

We are all human, and mistakes do occur. Unfortunately, unless evidence shows the mistake occurred despite taking 'reasonable care', these are treated just as harshly as any other VAT errors. Interest and even penalties can still be incurred even where innocent mistakes were made.

What do I do if I disagree with the HMRC Officer's decision?

If you think that the Officer is wrong or has been unduly harsh there are recognised appeal procedures which you should follow.

More details on this can be found in our leaflet 'Appeals and Disputes'. We urge you to seek advice if you do plan to dispute a decision. There are many pitfalls for the unprepared but, equally, for the prepared there are many painless ways to achieve the desired result or to reduce the cost to yourself.

What can UHY Hacker Young do for me?

Our in-house VAT specialists are themselves ex HMRC Officers, and regularly use that experience to assist clients with VAT visits and in subsequent dealings with HMRC.

We can guide you through the dispute resolution procedures, or discuss your planned business dealings in advance to ensure that no VAT problems arise. We believe in being open with our clients and will always advise honestly and completely. Equally, we will not raise your hopes if your chances of a successful outcome in a dispute are slim.

The next step

If you would like further information on VAT assurance visits, or are due to undergo an HMRC inspection yourself, and you would like to arrange a meeting to discuss your individual situation, please contact your usual UHY Hacker Young partner.

For further advice
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