UHY Hacker Young
Chartered Accountants

February 2017

General VAT planning points

There are some very simple ways to ease your VAT cashflow or make the VAT rules work for you.

For VAT there is no financial year end so we have sought to highlight some general planning points that you may wish to consider.

VAT FLAT RATE SCHEME

Register under the VAT flat rate scheme if your net turnover is £150,000 or less; this may simplify VAT issues for you and, in some cases, result in extra profits. Consider this scheme also where there is commercial property in a company or partnership with little other income. Care needs to be taken, however, if your business receives any exempt income or VAT-free income from overseas customers, as these sources also need to be included when calculating the flat-rate VAT payable.

One thing to remember with the flat rate scheme, with effect from 1 April 2017, is that any business using the scheme, or wishing to, will have to decide whether or not it is a limited cost trader. A limited cost trader is one whose VAT inclusive expenditure on goods for the business in a prescribed accounting period is less than 2% of VAT inclusive turnover, or is more than 2% but less than £1,000 a year. Limited cost traders will have to use a flat rate percentage of 16.5% irrespective of the type of business.

Other schemes such as Annual Accounting or Cash Accounting may be of benefit to you in smoothing out your cashflow or providing automatic VAT relief for late paying customers, for example.

PARTIAL EXEMPTION AND BUSINESS VS NON-BUSINESS

If you are partially exempt, your partial exemption year ends on 31 March, 30 April or 31 May depending on your normal VAT quarters. Remember to carry out your annual adjustment and, if the result is an additional VAT refund due to you, this can now be entered on this year end VAT return rather than the next, ie. Q4 rather than Q5 for the year in question. Several recent cases before the Courts have cast doubt on HMRC's approach in regards to cost allocation for partial exemption and non-business apportionments, particularly for the not-for-profit sector and non-business activities. It is therefore a good time to review your partial exemption method or business versus non-business balance generally to see if the current calculation is working for you, or whether an alternative might yield a better result.

TRADING INTERNATIONALLY

If you trade overseas, there have been many important changes to the VAT rules affecting the supply of goods or services internationally, many of which have helped UK businesses in their VAT accounting (although some have, inevitably, made things more complicated). We recommend a review of your purchase and sale contracts and supply chains to ensure that you are making the best use of the VAT rules and are not overpaying VAT or paying it too soon.

In March 2016, HMRC issued a consultation document regarding the Fulfilment Centre Due Diligence Scheme, the outcome of which has recently been published. Under the new rules, HMRC can now force overseas retailers to appoint a UK-based VAT representative or provide a financial guarantee. If the overseas retailer fails to comply with HMRC's directions, then the online marketplace they use to sell their goods such as Amazon, eBay, etc. could be held liable. In addition, as these goods are often stored in UK warehouses for distribution to UK customers, warehouses will have to join a due diligence scheme by 2018 or face penalties. The due diligence scheme will introduce stricter rules regarding the fulfillment of overseas sellers goods.

> If we had to choose a VAT tip to hammer home it would be to take a fresh look at your VAT affairs.

UK 'SHELL' COMPANIES OR NON-RESIDENT BUSINESSES

The European Commission has released guidance on the extent of physical presence needed in a country in order for a business to have either a 'business establishment' or an alternate 'fixed establishment' there for VAT purposes. This will have implications not only for charging VAT (or not) on services supplied internationally, but also on a business' entitlement to register for VAT in the first place. UK companies trading entirely overseas and non-resident businesses trading in the UK should review the nature of their presence in the UK for any VAT implications.

DIGITAL SUPPLIES

For businesses supplying digital products, web and broadcasting services in particular, a new VAT regime came into effect on 1 January 2015, known as the Mini One Stop Shop (MOSS). Unfortunately, the regime is still causing difficulty one year on, with many businesses increasingly finding that they fall into the new regime than was originally predicted. If you only sell to other businesses you will not be affected, but if there is any possibility that you may sell digital products or services direct to final consumers in the EU, you need to consider whether or not you are affected by the new regime.

ELECTRONIC FILING

Planning is not always about the tax payable, but also about ensuring your systems and processes are up-to-date and in place correctly.

You should ensure that your company's corporate tax returns are iXBRL compliant and that your corporation tax is paid electronically.

Virtually all VAT returns and other VAT declarations are now filed and paid electronically, including for all new VAT registrations.

You should also look out for electronic VAT registrations and online administrative tasks becoming more widespread, including VAT group registrations, deregistrations, options to tax and uploading of supporting documents and forms.

Although it is welcome that HMRC are entering the digital age, such huge procedural changes inevitably bring their own problems and care is needed when communicating electronically with HMRC. You should speak to your usual UHY adviser if you have any concerns.

BREXIT

Over the next couple of months, we will learn more as to how UK businesses will be affected by leaving the European Union (EU). Early comments confirm that the UK will no longer be a member of the Single Market and, as a result, will not be bound by European Commission laws, however, the Prime Minister is looking to establish an ambitious free trade agreement with the EU. It is expected that the majority of businesses will be affected by such changes.

VAT REVIEW

More generally, there are of course many planning tips for VAT but if we had to choose one to hammer home it would be to take a fresh look at your VAT affairs. There are some very simple ways to ease your VAT cashflow or make the VAT rules work for you. Your financial year end is as good a time as any to action this, as VAT rules change frequently both in the UK, and the EU if you trade there. Contact your usual UHY adviser if you would like a full year end review of your VAT affairs.

THE NEXT STEP

If you would like any advice on the above, or if you wish to review your circumstances, please contact your usual UHY adviser or your local VAT specialist, who can be found on our website at www.uhy-uk.com/vat.

Read more about us on our website at www.uhy-uk.com and see our latest views and opinions on our tax blog at www.uhy-uk.com/tax-blog.

UHY Hacker Young Associates is a UK company which is the organising body of the UHY Hacker Young Group, a group of independent UK accounting and consultancy firms. Any services described herein are provided by the member firms and not by UHY Hacker Young Associates Limited. Each of the member firms is a separate and independent firm, a list of which is available on our website. Neither UHY Hacker Young Associates Limited nor any of its member firms has any liability for services provided by other members.

A member of UHY International, a network of independent accounting and consulting firms.

This publication is intended for general guidance only. No responsibility is accepted for loss occasioned to any person acting or refraining from actions as a result of any material in this publication.
© UHY Hacker Young 2017