

## VAT

I have recently experienced a couple of VAT control visits with clients. These control visits which are carried out by officers of the Inland Revenue have resulted in a number of common areas when VAT errors have been made, which can of course result in additional VAT being paid to HM Revenue and Customs, plus interest charges and possibly a penalty charge.

I have therefore outlined below some typical VAT errors. I recommend you review the list to make sure that these are not errors your business is making:-

### **1. Invoices**

VAT can only be reclaimed when there is a valid invoice made out to the VAT registered person. That invoice must of course specify the rate/amount of VAT which is charged, and provide the nine digit VAT number of the provider of the service or goods.

### **2. Delays in Payment**

If an invoice is not settled within six months of the date the invoice is received, then any VAT claimed must be repaid to HM Revenue and Customs until that invoice is settled.

### **3. Imports**

VAT can only be claimed on imports when this is evidenced by a monthly import VAT certificate or form C79.

### **4. Export**

If goods or services are exported outside of the European economic area then it is important to prove the goods have left the area in order that the supply can be zero rated.

### **5. Exempt and Zero Rated Supplies**

These are supplies where there is no VAT that can be recovered. This would include such costs as bank charges, insurance, postage using the post office, and business rates. It is important particularly to review rent payments, since rent can either be subject to VAT or not subject to VAT. Please do not reclaim VAT on rent without a valid invoice.

### **6. Business Entertainment**

VAT cannot be reclaimed on business entertainment. This includes food, drink, provision of sporting facilities, attendance at supporting events. VAT can also not be claimed back on entertainment provided just for directors or partners in a business.

### **7. Incorrect Calculation of Import VAT**

Not all invoices provide a breakdown of the VAT charge. If the invoice you receive is inclusive of VAT, then in order to calculate the VAT which is due, you must divide that value by six. If the invoice you are provided with is exclusive of VAT, then to calculate the VAT which is due, the total is divided by five.

### **8. Unusual Sources of Output VAT**

If the company receives funds for any supply, it is important to account for the output VAT on that supply. This would typically include receipts for the use of coffee machines, receipts for sales of scrap, part exchanging/ selling of vans and motorbikes, and selling of plant and machinery.

### **9. Purchase of Vehicles**

VAT cannot be reclaimed (except under very restricted circumstances), on the purchase of a motor car. VAT can however be reclaimed on the purchase of a lorry, van, motorhome and motorbike.

## **10. Car Lease Payments**

If a motor car is leased, then VAT can only be claimed back on half of the finance part of the lease payments. If the lease payment also includes a service element, then the VAT can be reclaimed on all of the service element of the payments.

## **11. VAT on Petrol**

If petrol is provided for a motor car, then detailed records must be kept to show whether the journeys used by that car are business or private. VAT can only be reclaimed on the business element of any journey, with appropriate apportionments being made. In the absence of any detailed records, then VAT should not be claimed back on petrol cost, or VAT can be claimed back on all petrol cost, but a calculation must be made using published tables of the fuel scale charge appropriate to the car, and VAT declared on that fuel scale charge. The fuel scale charge depends on the size of the car and the type of engine used within the car.

## **12. Mileage Allowances**

If an individual uses his private car for business purposes and a mileage allowance is paid on the basis of using that car, then VAT can be claimed back on part of that mileage allowance. The amount of VAT that can be claimed back depends on the engine size, and whether it is LPG, petrol, or diesel. The rates of VAT that can be reclaimed are published quarterly, and are referred to as the “advisory fuel rates”.