

Tax Representation



TAXREP 53/07

DELAYS IN REGISTERING BUSINESSES FOR VAT

Memorandum submitted in August 2007 by the Tax Faculty of the Institute of Chartered Accountants in England and Wales to Government, HM Revenue & Customs and HM Treasury setting out detailed concerns about the continuing impact on businesses of the delays being experienced in obtaining VAT Registrations, and making a number of recommendations for improvements.

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DELAYS IN REGISTERING BUSINESSES FOR VAT

1 INTRODUCTION

- 1 There is mounting public concern about the delays occurring to VAT registrations and the impact it is having on UK businesses. Government, HM Treasury (HMT) and HMRC are aware that the continuing and increasing delays in processing VAT registrations are damaging to business, both in time and cost. We are concerned that the continuing delays have damaged HMRC's reputation and acts to discourage good tax compliance from taxpayers.
- 2 This paper sets out the results of extensive feedback we have received from our members in the past few months about the issue and sets out a number of recommendations to help speed up this process.
- 3 Much of the information in this paper on the extent of the delays has been provided by our members and other contributors, in particular members of the VAT Practitioners' Group, who have given us details of their experiences with HMRC's VAT Registration Units. Annexes 3-5 contain examples of their case histories and further comments, and highlight clearly the frustrations that our members are experiencing on a daily basis. We are grateful to everyone for their assistance and we believe that the evidence provides strong support for the need to reassess the current policies for dealing with VAT registrations.
- 4 We believe that it is essential that a senior person at HMRC takes personal ownership of the issue and is accountable for effecting improvements.
- 5 We recognise that HMRC as the tax authority is directly responsible for the actual processing of the applications. However, we are concerned that they are operating under a budget and staff headcount reduction that is exacerbating the current problems. We think that there is a need for Ministers and HMT to consider providing an immediate increase in resources in order to help target and tackle this issue.
- 6 We know that there are a number of issues that have arisen that have led to the severe delays being experienced. For example, we support entirely the need to reduce MTIC fraud, and it is clearly a sensible precaution to try and prevent fraudsters from registering for VAT in the first place. However, more than a year after this policy started, whilst MTIC fraud has, we understand, been reduced, the waiting times for VAT registrations continue to increase, resulting in rising costs to businesses. There is an urgent need to rethink the current policy on tackling MTIC fraud and ensure that the right balance is struck between preventing MTIC and ensuring that business can register for VAT quickly and easily. We have not had the opportunity to study in detail the report into MTIC published by the Public Accounts Committee on 26 July 2007 and its recommendations. We would welcome the opportunity to consider this report further in the light of our paper and, if considered appropriate, have further discussions with that committee.
- 7 We are very concerned that the current policy is causing collateral damage to UK businesses and there is an urgent need for a rethink of the current policy. In particular, we are concerned that the current policies are alienating many UK businesses. This outcome is not in the interests of any stakeholder, whether they be

government, taxpayer and citizen and adviser. There is an urgent need to stop a further deterioration and take steps now to improve the position. We want to work with HMRC and government to help bring about such an improvement.

- 8 Whilst there are clearly considerable frustrations being experienced, it is noteworthy from the evidence we have gathered that, by and large, respondents do not hold HMRC front-line staff working in registration offices responsible for the problems that are arising. Indeed, many sympathise with the predicament that HMRC face. Rather, the message that we are receiving is that it is the overall policy and its implementation that are the root cause of the problem, and that it is these issues that need to be addressed if improvements are to be made.

2 EXECUTIVE SUMMARY

Our key concern

- 9 We entirely understand and support the need for more detailed checks on VAT registrations to help reduce fraud. However, we are concerned that the more detailed checking procedures have been implemented without adequate resources. Further, this is compounded by HMRC's policy decision to scale down the work at two of the four VAT Registration Units (VRUs) - the HMRC offices processing VAT registrations - prior to their closure. It appears that the combination of more extensive checking of VAT applications and a rationalisation and reduction in the number of VRUs have together resulted in lengthy delays to processing VAT applications.

What are the type of delays?

- 10 Annexes 3 to 5 set out in detail current experiences of delays that are occurring. Three typical examples of the processing delays are set out below.
- On 4 July 2007, Carmarthen VRU told a VAT Practitioner Group (VPG) member that all their applications had been delayed due to 'overspill' applications being transferred from Wolverhampton. Carmarthen were (on 4 July) opening the applications dated 5 June, a 29 day backlog, and were taking 12 weeks, ie 84 days, to process them;
 - On 6 July 2007, Newry VRU advised a contributor that they were opening applications received on 26 April 2007, a 71 day backlog.
 - On 25 June 2007, the VAT National Advice Service (HMRC's call centre for VAT) advised that it was currently taking 12 weeks / 84 days to process VAT registrations.
- 11 HMRC has stated that the average current time taken to process a VAT registration is 38 days. The experience of our members and others is that the time taken to process applications is much longer than this. It would be helpful to all stakeholders if HMRC explained how its figures are calculated so that we can reconcile the figures with the experiences of our members.
- 12 We and other professional bodies have been drawing attention to the registration delays for some 15 months now and have asked HMRC to take urgent action to

reduce the delays. We have received continual assurances that the situation will improve. Whilst we welcome these assurances, we are concerned that our evidence points to the conclusion that the situation has deteriorated.

Why are delays in VAT registrations a problem?

- 13 Delays in VAT registration prevent businesses from operating properly and delays in processing VAT registrations can effectively prevent them from trading. New businesses are in a particularly vulnerable position - they do not have substantial resources and back-up finance to support any time delay in cash flow.
- 14 Without a VAT registration number, a business:
- cannot invoice other businesses with any real expectation of payment (as the customer cannot deduct any VAT included);
 - will have to re-invoice the same customers to charge the VAT when it becomes registered;
 - will then have to pay the VAT over to HMRC, whether or not they have received it from their customer;
 - cannot purchase goods from other EC Member States without the addition of foreign VAT; and
 - cannot recover the VAT on its purchases, which will be substantial where property or plant and machinery is involved.
- 15 The result of the delays results in real business costs and our concern is that with the situation apparently deteriorating, the result is that costs to businesses have increased to such an extent that real hardship is being caused.
- 16 The challenges are:
- a) to recognise publicly that VAT registration delays are inflicting serious damage to business;
 - b) to appoint a senior manager to take personal charge of taking action to improve matters;
 - c) for the manager to set out as soon as possible an action plan to reduce the time taken for a business to register for VAT to the 21 day target period within a very short, specified timescale;
 - d) to then ensure that sufficient resources and management time are invested so as to ensure that the targets set out in the action plan are met – and continue to be met in the long term.
- 17 The Minister announced in the Finance Bill debate on 25 June 2007 that HMRC were taking measures on a number of aspects of the delays. This was a welcome re-statement of the commitment of HMRC to tackling this problem. What is needed now is delivery at the coal-face.

3 SUMMARY OF RECOMMENDATIONS

18 Full details of the Recommendations are given in Section 10 below.

PRINCIPAL RECOMMENDATIONS

Recommendation 1

19 In view of the importance of this issue and the damage that is being caused to UK businesses, a Parliamentary Committee should consider holding an Inquiry into this issue and make recommendations to ensure that this situation does not arise in the future. Given that the Public Accounts Committee has in the past week published a report into HMRC's tackling of MTIC fraud, and VAT registration delays are occurring because of the checks being carried out to counter MTIC fraud, we think there is a case for this committee to undertake a follow-up review of the issue and the way it is being tackled.

Recommendation 2

20 HMRC should publish monthly statistics setting out the current VAT registrations made and the time taken to process them, together with the numbers of prosecutions launched against those who have made fraudulent applications.

Recommendation 3

21 Businesses whose applications for registration are delayed beyond 30 days from the date that they are submitted should be recompensed for the extra costs incurred using a set formula based on a fixed amount and a variable amount for each day's delay beyond 30 days.

Recommendation 4

22 Businesses whose applications for registration are delayed beyond 30 days from the date they are submitted should be paid interest at a commercial rate to compensate businesses for the cash flow loss caused by the delay in recovering input tax.

RECOMMENDATIONS FOR IMMEDIATE ACTION

23 Recommendations 3 & 4 above (compensation and interest) would need to be implemented by primary legislation, for example in the 2008 Finance Bill. They will therefore take at least 12 months to come into effect.

24 Pending their implementation, we recommend that HMRC should announce, in operating their care and management duties in the collection of tax, the introduction of three temporary extra-statutory concessions to remain in effect until the VAT registration delays have been reduced to the 21 day target level or Recommendations 3 & 4 have come into force, whichever is the earlier. The three concessions are set out as Recommendations 5-7.

Recommendation 5

25 Businesses will not be required to charge or account for VAT on any supply made whilst they are waiting for their VAT registration to be processed.

26 **Recommendation 6**
Businesses will be permitted to add a supplement to the input tax claimed on their first VAT Return. We think that it would be reasonable to add a supplement of 10%.

27 **Recommendation 7**
Businesses that can show that they have suffered additional damage to their business because of the delays should be compensated, subject to a de minimis of £1,000.

RECOMMENDATIONS ON OPERATIONAL MATTERS

28 **Recommendation 8**
HMRC should register businesses for VAT after performing a limited number of basic checks, but at the same time impose a stop on repayments until all checks have been completed.

29 **Recommendation 9**
HMRC should prioritise post on receipt to deal with urgent applications.

30 **Recommendation 10**
HMRC should temporarily cease requesting non-VAT information during the registration process.

31 **Recommendation 11**
HMRC should fast-track applications from existing VAT-registered businesses where they have a satisfactory compliance record.

32 **Recommendation 12**
HMRC should fast-track applications sent in by advisers who are members of professional bodies.

4 HMRC'S VAT REGISTRATION POLICY

General

33 The reason for the policy decision in Spring 2006 to increase the verification checks on VAT registrations is clear and understandable. Those committing MTIC fraud were seeking to register bogus businesses to assist them to carry out the fraud. There therefore needed to be greater checks on new VAT registrations. We support entirely the government's fight against MTIC and the principle of undertaking greater checks on VAT applications.

34 However, as we have said publicly before, greater checks by themselves will not solve the problem. It is still open to the fraudster to acquire a VAT registered business, or hijack the identity of an existing VAT registered business. Increased HMRC checks on new VAT registrations can therefore at best only be a part of the solution in the battle against MTIC fraud.

- 35 Given that more detailed checking of VAT applications would either need greater resources or greater processing times, we would have expected that further resources would have been allocated to the VAT processing teams. However, the opposite appears to have happened, with these increased checks being carried out at a time when staff levels were being reduced to meet efficiency targets. The decision to close two of the four VAT Registration Units and to transfer the work to the remaining two without, it would appear, ensuring that there were sufficient resources them to reflect the increased level of checks being undertaken has, we would suggest predictably, exacerbated the delays.
- 36 In late 2006, the main VAT registration form was redesigned in consultation with the ICAEW and other professional bodies to make it easier for businesses to complete. The result has been a very significant reduction in the error rate and rejected forms. However, the new form takes HMRC longer to process, and was not made compatible with the on-line registration system where the old form still has to be used. These factors have also contributed to the delays.
- 37 Changes in tax policy have also had a further adverse impact on the delays. For example, several thousand medical practitioners were required to register for VAT from 1 April 2007 as a result of a change in the law. Following a change in tax policy, we have also seen many managed service companies (HMRC inform us as many as 20,000) seeking VAT registration in the Spring of 2007. Given that these consequences arose as a result of changes in policy, they were predictable and should have been factored into planning and decisions about deploying resources, particularly given that VAT processing delays had been identified as a problem at least 12 months before either of these policy changes. However, the impact of these changes does not appear to have been taken into account.
- 38 The result has been that the delays, which were already worsening prior to these policy changes, have become even more severe.
- 39 We welcome the fact that HMRC have publicly made efforts to alert businesses to the VAT registration delays. For example, in June 2007, HMRC's website read:

'VAT registration

Please note that there are delays with the processing of both online and paper VAT registration applications. We are taking steps to improve this situation but please try to avoid contacting us to see how your application is progressing as this may further extend processing times.'

This was added to on 17 July 2007 with a FAQ sheet reading:

'When will I get my VAT registration number?

Unfortunately we are currently unable to process applications for VAT registration as quickly as we would like. We are working hard to improve this, but the average time to process applications is 38 days at present.

If your application was sent to us within the last 6 weeks, we would ask that you do not contact us to chase progress. We will not have any additional information to provide and dealing with these enquiries takes resource away from processing and can create further delays.

Why is it taking so long?

VAT registration can be the entry point to very significant VAT fraud. To counter this, a small number (around 5%) of applications need further checks before they can be processed. These checks can take up to 15 weeks although most are completed more quickly.

40 However, if a taxpayer tries to contact a VRU, they will find that HMRC have blocked the telephone numbers to avoid high volumes of calls, in order that they can deal with various backlogs without interruption. Messages given vary between 'the call cannot be completed as dialled' to 'Sorry, all our advisers are busy, please try again later' before the call is disconnected.

41 Whilst this is an understandable tactic to ease the pressures on hard-worked staff in the VAT registration offices, it is not helpful to taxpayers who have been waiting several weeks without hearing anything about their application, and who cannot be certain that their application has been received. There is an urgent need for resources to be made available to help businesses who enquire about their VAT registration.

The success of HMRC registration checks in combating MTIC fraud

42 In the debate on the Finance Bill on 25 June 2007, the Financial Secretary to the Treasury stated that 'In 2006-07, 7,100 applications for registration were refused on the grounds that they were suspect, and 2,500 applications were registered with specific conditions such as financial security.'

43 That is out of some 300,000 registration applications in total. If all of the 7,100/2,500 applications relate to attempted fraud, that is a considerable achievement on the part of HMRC. However, we would welcome statistics on:

- the number of fraudulent applications;
- the number of failed applications that have been followed up by HMRC; and
- the number of prosecutions that have been made as a result.

These statistics should enable taxpayers and the public to see that the extended checking is a key and necessary weapon in the fight against fraud.

44 It is essential that HMRC follow up failed applications and where necessary prosecute fraudsters. If this is not done, the detailed checking procedures will not act as a deterrent to fraudsters, who will just try again, whilst causing considerable costs to legitimate businesses. HMRC needs to be able to demonstrate that the benefits of these fraud prevention measures are justified in the light of costs being imposed on businesses – particularly small businesses.

45 We remain concerned that fraudsters will circumvent the checks, for example by purchasing a company that is going out of business or a small VAT registered businesses. It is important for information to be published on whether:

- the frauds that HMRC have detected or prevented have arisen mainly from new or from existing VAT registrations, and
- whether HMRC have a system to check when there is a change in ownership of a company or business.

46 As we have stated in past representations, there is only one way of substantially reducing the scope for fraud using VAT registration numbers and that is to introduce a system that will allow taxpayers to make real-time checks of customers and/or suppliers similar to those undertaken by credit checking agencies. The cost of such a measure is almost certain to be less than the current policy.

5 WHY PROMPT VAT REGISTRATION IS IMPORTANT FOR BUSINESS

General

47 A business needs a VAT registration for a number of reasons:

- i) It is required by law when turnover exceeds a certain amount, currently £64,000 pa.
- ii) It needs to show on its invoices its VAT number and the amount of VAT charged when supplying goods or services to another VAT registered business, so that they in turn can recover that VAT.
- iii) It cannot otherwise recover the input tax it has paid on its own purchases. The amount can be substantial when property or other fixed assets are involved.
- iv) It cannot purchase goods from another EC Member State without incurring foreign VAT unless it provides the supplier with its VAT registration number. (The supplier requires this in order to apply the 'zero rate' on the intra-EC supply).

48 It follows that if delays are occurring in the processing of VAT registration, this will affect the ability of the business to operate properly.

49 Many businesses applying for VAT registrations are new businesses. They may have very limited resources, and consequently will wish to devote their energies to marketing their product, finding new customers and suppliers and building up their enterprise. They appreciate that they have to comply with the law but do not wish to be forced to divert scarce resources away from developing the business to having to cope with the consequences of delays in processing VAT registrations within an acceptable time.

50 We are also concerned that the current delays are putting severe strains on the resources of businesses and placing burdens on them that need to be removed.

VAT invoicing

51 Whilst a business is waiting for a VAT registration, it cannot show the VAT separately on an invoice, although it may issue a 'pro-forma' invoice showing the total (VAT-inclusive) amount. However, a VAT-registered customer cannot deduct the VAT included on a 'pro-forma' invoice. When the VAT registration is obtained, the

business must re-invoice the customer with a proper 'VAT invoice', showing the VAT due separately.

- 52 The longer the wait for a VAT registration, the greater the extra cost in time and expense for the business. For example:
- if a business has to wait 60 days for a VAT registration, and is invoicing business customers at the rate of 5 invoices per working day, at the end of 60 calendar days (42 working days) it will need to re-issue 210 invoices;
 - if it takes 5 minutes to re-process each invoice, that will take the business 1,050 minutes or 17.5 hours;
 - if the business had been registered in 21 calendar days (the HMRC target figure), it would only have had to re-issue one third of the invoices;
 - the additional registration delay will have the direct result that the business will be obliged to undertake an additional 12 hours/1.5 days' work; and
 - there are also the additional costs of stationery, printing and postage.
- 53 If a business issues a 'pro-forma' invoice, it is likely to find that many of its VAT registered customers are not prepared to pay it, since the VAT law does not permit them to deduct the VAT included. The customer is in effect being asked to make an interest free loan to the business until they receive a VAT invoice. Other customers will find it difficult to process a non-VAT invoice in their automated accounting systems. Some customers will simply use the absence of a proper VAT invoice as an excuse to delay payment of the entire amount.
- 54 If the business invoices the amount net of VAT, then it is taking the risk that the customer will not pay the VAT when invoiced at a later stage. If the customer does not pay, or delays payment, the business will nevertheless have to pay that VAT over to HMRC.
- 55 Either way, the business will also suffer an extended cash flow cost.
- 56 Larger businesses can face the same invoicing problem, but on a far greater scale, for example where a business is transferred to a new company which must itself register for VAT.

VAT invoicing - insolvencies

- 57 VAT invoicing problems on a much greater scale can occur when an administrator is appointed to an insolvent company and the company continues to trade whilst seeking a buyer. This period typically lasts for six to eight weeks.
- 58 When a company enters into insolvency and was part of a VAT group registration, it may have to leave the VAT group, depending upon whether other group members have also become insolvent. If it does leave the VAT group, it will require a separate VAT registration.
- 59 HMRC's Insolvency Operations Unit is frequently able to facilitate a new VAT registration very quickly, but where they are not involved, the 'normal' delays will

apply. One administrator has told us that the VAT registration unit had told them they would just have to issue pro-forma VAT invoices until registration was granted, and then re-issue them as VAT invoices. Many thousands of invoices were involved. The administrators needed to operate the insolvent company on minimal resources, and needed to deal with more important regulatory issues. It took many discussions with HMRC's Insolvency Operations Unit before they obtained agreement to use the old VAT registration number and not to have to re-issue the invoices.

- 60 However, the risk remains that VAT registration delays will significantly increase the costs of an insolvency and so reduce the amount available to pay creditors.

Recovery of input tax paid

- 61 A business cannot recover the input tax which it has paid to its suppliers until it is VAT registered and submits a VAT Return. This may not be too much of a problem for a small business dealing in services, which may have little input tax to recover in the early days, but it does affect any business trading in goods.

- 62 It is likely to be significant where a new business purchases a property on which the vendor has opted to tax. We are aware of one case where the delay in VAT registration for the purchaser is costing the business £9,000 per month in additional interest charges payable to their bank. Another business has invested £300,000 in fixed assets, and has been waiting months for a VAT registration so that it can claim back the VAT paid.

- 63 In all these cases, HMRC will have received the output tax from the seller long before they allow the purchaser to reclaim the VAT as input tax. Whilst the cash flow advantage was doubtless not intended, it is wrong in principle that this is one result from the VAT registration delays and action needs to be taken to restore the balance.

- 64 There is also the question as to whether HMRC are acting legally within the constraints of European Law when they prevent a business from recovering input tax for a lengthy period. A business has a legal right in EC Law to the deduction of input tax (see Articles 17 and 18 of the Principal Directive). It is well established in the case law of the European Court of Justice that a Member State may not render virtually impossible or excessively difficult the exercise of rights conferred by Community law. If it does, that Member State will infringe the EC Law principle of effectiveness.

Purchases of goods or services from other EC Member States

- 65 A business wanting to purchase goods from another Member State is required to provide the supplier with its VAT number. If they do not, then, depending on the amount involved, the supplier must either charge his local VAT, or register himself in the UK and charge UK VAT. The first option is unattractive for the customer, who will have to pay the 'foreign' VAT, which will be difficult to recover. The second option is equally unattractive for the supplier, who will not want to incur the additional compliance costs and deal with an unfamiliar tax regime.

- 66 The practical effect is that the purchase will be delayed until the business obtains its UK VAT registration, and this in turn will delay the time when the business can sell the goods to its own customers. Meanwhile, it is still faced with its start-up costs.

6 WHY PROMPT VAT REGISTRATION IS IMPORTANT FOR HMRC

General

67 There are a number of reasons why it is important to HMRC to improve their VAT registration response times significantly.

Taxpayer Cooperation

68 VAT, like many other parts of the UK tax system, is a self-assessed tax. It therefore requires cooperation and compliance from taxpayers generally in order for it to function. Whilst there are sanctions for the non-compliant, they can only be effective and enforced against a small minority of taxpayers. HMRC do not have, and will never have, the resources to check on every taxpayer, nor should they need to.

69 Taxpayers in general therefore voluntarily comply with a tax code which makes them 'unpaid tax collectors'. They may not wish to do so in an ideal world, but nevertheless recognise that it is a legal requirement. In many cases, an application to be registered for VAT is the first contact that a business will have with the tax administration. HMRC's responsiveness will be a major factor in how that business looks subsequently on tax compliance.

70 If a tax administration makes tax compliance excessively difficult or costly for taxpayers, it is seen as having broken its part of the unwritten contract between the state and taxpayer. The effect over time is that a tax authority will be less and less able to assume that taxpayers generally will comply with tax law.

71 This concept, whilst simple and intuitive, has been the subject of academic research, where it has been described as 'tax morale'.

72 In their research paper, *Culture Differences and Tax Morale in the United States and in Europe* (James Alm and Benno Torgler, Yale, July 2005), the authors state that tax morale can generally be understood as describing the moral principles or values individuals hold about paying their tax. They consider that tax morale is likely to be influenced by such factors as:

- perceptions of fairness;
- trust in the institutions of government;
- the nature of the fiscal exchange between taxpayers and government; and
- a range of individual characteristics.

73 The VAT registration system falls both under 'perceptions of fairness' and 'the nature of the fiscal exchange between taxpayers and government', on which the authors say

'Their results indicate that the observed differences in tax compliance behaviour and tax morale can be explained by differences in the fairness of tax administration, in the perceived equity of the fiscal exchange, and in the overall attitude towards the respective governments across the countries.'

74 In other words, where a taxpayer considers that a tax administration is treating him fairly, he is likely to respond accordingly.

Imbalance of Powers, Rights and Responsibilities

75 The law on VAT registrations imposes sanctions (ie penalties) on taxpayers who do not apply to register for VAT on time. However, there are no sanctions on the tax authority for failing to process VAT registrations within a reasonable time period. Nor is there any requirement for the tax authority to pay compensation for the additional time or the extra costs incurred by taxpayers.

76 This imbalance is not unreasonable where the tax authority is discharging effectively its role of administering the tax system in accordance with agreed standards and timeframes. Where, as with VAT registrations, this is not the case, there will be a growing pressure for the proper balance of powers, rights and responsibilities to be restored. If action is not taken to restore that balance, the inevitable result will be a general reduction in taxpayer compliance.

7 VAT REGISTRATION TARGETS & PERFORMANCE

General

77 The HMRC target for processing applications for VAT registration is 21 calendar days or 15 working days.

78 There are some 300,000 applications for VAT registration per year, an average of 25,000 per month. HMRC classify all applications into three categories for MTIC fraud risk analysis purposes:

- i) Normal 'non-risk' applications. These comprise some 95% of all applications, i.e. some 285,000 per year or 23,750 per month.
- ii) Higher risk applications. These comprise some 5% of all applications, i.e. some 15,000 per year or 1,250 per month. These undergo more detailed checks.
- iii) As a result about 1/5 of the higher risk applications (i.e. 1% of the total, 3,000 per year or 250 per month) are subjected to very detailed checks.

79 In the Finance Bill debate (Public Bill Committee) on 7 June 2007, the Financial Secretary to the Treasury (John Healey) said:

The hon. Member for South-West Hertfordshire talked about delays in VAT registrations. I should like to give him some sense of scale: there are almost 300,000 new VAT registrations every year. Clearly, HMRC aims to process those registrations as quickly and efficiently as possible. In order to do so, and given the evidence that the Treasury Committee took, to which he referred, HMRC has taken steps to streamline that process, particularly by targeting its pre-registration checking in order to speed things up.

So far, the outcome of those steps has been that more people are getting their applications right first time because of the improved application form and guidance. A year ago, that number was under 30 per cent., whereas it is now more than 70 per cent. Better targeting of the procedures for identifying risk has meant that about 95 per cent. of applications are now cleared for registration after the initial check. The average time that it takes to process those applications is less than 30 days.

80 However, some 2½ weeks later, in the Finance Bill debate on 25 June 2007 (at Column 77), the Minister said:

‘Nineteen out of 20—95 per cent.—of applications are now cleared for registration after an initial check, and for those applicants the average time to process an application is currently 38 days.’

The above statements imply that within a period of 2½ weeks the position had worsened from an average of 30 days to an average of 38 days, a deterioration of 27%.

81 However, the experience of our members as set out in the Annexes in this paper suggests that HMRC are taking considerably longer than 38 days to process registrations, and for many a waiting time of 60 or more days is not unusual.

82 There are substantial general delays between the receipt of an application by a HMRC VAT Registration Unit and their starting to process it. Members and contributors have told us that:

- on 19 June 2007, both Grimsby and Wolverhampton VAT Registration Units had stopped taking phone calls between 10am and 3pm because they have an 8 week or 56 day backlog;
- on 3 July 2007 Grimsby VAT Registration Unit were dealing with 8 May applications, a backlog of 61 days; and
- on 4 July 2007, Carmarthen VRU said that all their applications had been delayed due to ‘overspill’ applications being transferred from Wolverhampton. Carmarthen were (on 4 July) opening the applications dated 5 June, a 29 day backlog, and were taking 12 weeks/84 days to process them.

83 Further examples of VAT Registration Unit delays in processing applications are given in Annexes 3-5.

84 The Minister said, in the Finance Bill debate on 25 June 2007

‘First, claims that registration applications have not even been opened are simply not true. Post received by the registration units is opened on the day of receipt. The timetable against which HMRC attempts to manage its operations, which it monitors and then is judged against, counts from the point of receipt of the form.’

85 Our experience is that HMRC do not start to process VAT registration applications until a considerable time (measured in weeks) after they have been received.

86 It should not matter in terms of measuring the overall service standards whether applications are opened on the day of receipt or at a later date. The key requirement is that applications are processed promptly and within the agreed timescales. Our

evidence is that this is not the case and that the quoted current average processing times do not appear to us to reflect the actual situation on the ground. We would welcome clarification as to how these statistics have been calculated so that we can reconcile them with our experiences.

Higher Risk Applications

- 87 These are the about 5% of applications, some 15,000 per year or 1,250 per month, which HMRC select for more detailed checks. About 1/5 of these higher risk applications (i.e. 1% of the total, 3,000 per year or 250 per month) are subjected to very detailed checks. According to the latest HMRC figures, some 7,100 or 48% of these are refused registration as a result.
- 88 In January 2007, HMRC reported that the checks for these were now taking 12 weeks/84 days on average, and we are aware of cases that have taken considerably longer. We do not understand why the checks should take so long.
- 89 A commercial business would not take this long to decide whether or not to accept a new customer or supplier. In the commercial world checks need to be done, and are done, in a matter of a few days. We can only presume that the checks do not take that long and the delays arise because the application is awaiting its turn to be processed due to a lack of resources to deal with the number of applications.
- 90 Because this category has the greatest delays, the 50% or more of the businesses selected for these detailed checks, but whose registration is ultimately granted, suffer the most damage. Whilst their number is relatively small as a proportion of the total applications, nevertheless it results in 8,000 businesses per year suffering severe delays.

8 RECENT DEVELOPMENTS IN PARLIAMENT

General

- 91 In the Finance Bill debate on 25 June 2007, the government resisted an Opposition New Clause 4 (see Annex 6), which would have deemed a company to be VAT registered if HMRC had not processed a registration application within a reasonable time limit set by the Treasury.
- 92 The Financial Secretary gave a number of reasons why the government would not accept the new clause, principally on the grounds (see cols 77 & 78) that it was 'a disproportionate overreaction' and that it:
- 'might have the perverse effect of tying up HMRC in unnecessary bureaucracy and litigation at a time when all of us want it operationally to sort out the problems and delays on registration and to maintain the pressure on VAT fraudsters.'
- 93 Whilst we agree with the Financial Secretary that we all want HMRC to resolve the operational problems and delays, the proposed News Clause would have the advantage of focussing on the need for HMRC to register businesses promptly for VAT, so as to ensure that businesses cannot register 'by default' due to processing delays.

Assurances of improvements

94 The Minister went on to give a number of assurances on actions to be taken:

‘First, a taskforce has been set up within HMRC further to concentrate on the highest risk applications to minimise the disruption caused to other legitimate applications. Secondly, the maximum resource possible has been committed to introducing the medium-term changes to concentrate registration staff and expertise in two sites rather than four. Thirdly, there has been a concentration on making the necessary improvements to the computer system.

I recognise that it may take some time to get those measures precisely right. HMRC has told me that it is confident that by the autumn it will be on track to deliver a sustained improvement in the registration service that serves taxpayers’ needs while remaining tough and strong on fraud. On top of the undoubted pressure with which HMRC is dealing, Opposition Members have proposed a new obligation, which could cause further problems.....

I submit that HMRC has recognised the drop in the proper and rightfully expected performance on registrations and that steps are being taken to rectify the situation. The fact that that is a temporary dip in performance levels and that the Government will implement public service agreements to ensure that the situation is effectively monitored and scrutinised in the future.’

95 Our concern with these Ministerial assurances is that, whilst we appreciate that they are well-intentioned, such assurances have been given (by HMRC) in the past. However, in spite of such assurances the delays have got worse rather than better.

96 The ICAEW is a member of HMRC’s Joint VAT Consultative Committee (‘JVCC’) and takes part in its quarterly meetings. On the VAT registration delays, the JVCC Minutes, publicly available on the HMRC web site, have variously stated over the past 15 months:

26 April 2006

‘[On VAT registration] ...the headline message was that HMRC was grasping this particular nettle. [HMRC] were determined to improve service levels, and would be doing so, over the coming year.....

26 June 2006

‘HMRC fully recognised that the current state of affairs was unacceptable – it fell far short of the standards business was entitled to expect. HMRC was fully seized of the problem and had brought together the various players from across the Department to contribute to a solution. HMRC had begun to put remedial measures in place and although some of these would take time to feed through, others were expected to produce more immediate improvement.’

8 November 2006

‘the removal of the requirement to submit ‘intending trader’ evidence was already contributing to a welcome improvement in the proportion of complete and accurate returns (which was now >50%). Plainly, however, there was much more to be done. In terms of HMRC performance on processing ... there had been some improvement – 60% now processed within 21 calendar days, 95% in an average of 31 days.

.... there was still some way to go, but felt that HMRC had turned the corner in improving the registration service. The revised VAT1 was a valuable step forward and HMRC needed to sustain the efforts to get the process back up-to-speed.'

24 January 2007

'[HMRC] reported some good news on processing of VAT registration applications: 37% of routine applications were being processed within (the target) 14 days, and 95% in an average of 24 days. This represented a significant improvement on performance from 6 months ago and the trajectory continues upwards. However the performance on processing higher-risk applications did not show similar improvement, indeed delays had increased from 6-8 weeks in July 2006 to around 12 weeks.'

26 April 2007

'[HMRC] reported that on non-risk registration cases performance stats for the month of March 2007 showed that 19% of applications to register for VAT had been dealt with within 14 days. (year to date was 27.2%) The average time for the 95% of applications that are non-risk to be processed was now 29 days. There had been some slippage in the 14 day target due to tackling of backlogs and office restructuring, in addition to which there had been about 20,000 applications to register (mostly pre-budget) received from Managed Service Companies. There had been some improvement in Stage 2 Risk cases which has seen delays in completing checks reduced to 29 days. Detailed attention was now being given to Stage 3 checks.'

97 Set against the above assurances, the Ministerial statement that

'HMRC has told me that it is confident that by the autumn it will be on track to deliver a sustained improvement in the registration service that serves taxpayers' needs while remaining tough and strong on fraud.'

whilst providing a welcome recognition of the need for progress, provides neither a firm timetable for improvement nor the high level of assurance necessary that service levels will in fact have improved by the autumn.

98 Given the problems that business are suffering, HMRC need to be held formally to account for delivering improvements rather than just 'on track to deliver'. There needs to be a clear action plan and demonstrable progress in its delivery by senior management so that businesses can see that the delays are reducing.

9 OTHER EFFECTS

Impact on 'reducing burdens for business' campaigns

99 HMRC have announced a number of initiatives over the past few months aimed at improving their relationship with business. HMRC have also set up teams looking at ways of simplifying tax forms and otherwise simplifying the compliance burdens for business.

100 We have welcomed these initiatives and have stated that we are happy to take part.

Improving HMRC's relationships with agents

101 As Accountancy Age reported on 21 June 2007:

'In April, HMRC posted two podcasts on to its website. One of these, entitled 'Fresh Start', is an interview with Dave Hartnett, director-general of HMRC, in which he emphasises that HMRC is working hard on its relationship with tax agents and intermediaries.

'Tax agents,' he says, 'are the front line of compliance in the UK for large numbers of taxpayers. We want to recognise them in that role and we want to involve them in developing tax administration.'

102 Once again we have welcomed this approach.

103 However, unless and until HMRC can significantly improve their performance on basic tax administration, of which VAT registration is one of the key issues, it is unlikely that these initiatives will succeed in their aims. If there are so many deficiencies in the basic administration of the tax system, business and agents are unlikely to support initiatives to reduce their tax compliance burdens. Our concern is that if the 'basics' are not right, these types of worthy initiatives will not succeed. Further, they may be counterproductive if taxpayers think that they are being used to mask the fact that the underlying problems are not being resolved.

10 DETAILED RECOMMENDATIONS

PRINCIPAL RECOMMENDATIONS

Recommendation 1

104 **In view of the importance of this issue and the damage that is being caused to UK businesses, a Parliamentary Committee should consider holding an Inquiry into this issue and make recommendations to ensure that this situation does not arise in the future. Given that the Public Accounts Committee has in the past week published a report into HMRC's tackling of MTIC fraud, and VAT registration delays are occurring because of the checks being carried out to counter MTIC fraud, we think there is a case for this committee to undertake a follow-up Inquiry into the procedures for tackling MTIC and whether the way it is being tackled is causing damage to business.**

105 Copies of this TAXREP are being sent to relevant Committees of the House, namely the Public Accounts and Treasury Select Committees of the House of Commons and the European Union and the Economic Affairs Committees of the House of Lords. Given the importance of this issue to UK businesses, we think that there is a strong case for one of the Parliamentary Committees to consider holding an Inquiry into the VAT registration delays, which should include the procedures and processes in place for handling of VAT registrations and what actions are being taken to reduce the time taken to process applications.

- 106 We believe that an Inquiry would help to resolve the current problems and also ensure that measures are taken to guard against this problem recurring.
- 107 On 26 July 2007, the Public Accounts Committee published a report on HMRC's tackling of MTIC fraud. We have not yet studied the report in detail but note that it makes a number of recommendations. Although the report was concerned with tackling MTIC rather than the VAT registration delays, the two issues are linked and we think that it would be appropriate for the Public Accounts Committee to launch a follow-up Inquiry which considered the wider aspects of MTIC fraud and in particular the problems being caused by the delays in VAT registration. We would be happy to give further evidence, both oral and written, to such an Inquiry.
- Recommendation 2**
- 108 **HMRC should publish monthly statistics setting out the current VAT registrations made and the time taken to process them, together with the numbers of prosecutions launched against those who have made fraudulent applications.**
- 109 We are concerned that the current published figures (95% of applications processed in 38 days on average) do not show properly the true position. Rather than using averages for a percentage of applications as at present (the methodology for which is unclear), we consider that more comprehensive and understandable figures should be provided that show the complete picture on registration delays.
- 110 Standardised monthly reporting will clarify the true position on the delays, and provide a yardstick to measure the success in reducing them. Without full and clear information it is not easy for external parties, including those waiting for registrations and professional bodies such as ourselves, to see whether progress is being made in reducing delays.
- 111 Standardised reporting would also remove the difficulty of reconciling figures for the same period, but given at different times. For example, in a Written Answer in *Hansard* of 18 June 2007, the Minister stated *inter alia* that, in October and November 2006, 88% and 85% of applications were processed within 21 days of receipt (See Annex 7). But in the JVCC Minutes for the 8 November 2007 meeting, HMRC reported that only 60% were 'now processed within 21 days'.
- 112 There are other apparent discrepancies, which appear to indicate that the figures have been calculated on different bases. HMRC need to agree with the professional bodies a methodology for calculating the processing times that provides a complete picture of the position, and then apply it rigorously at least monthly.
- 113 We recommend that each month the following statistics are published:
- the number of VAT registration applications outstanding at the beginning of the month;
 - the number of VAT registration applications received;
 - the number of VAT registration applications granted;
 - the number of VAT registration applications refused; and

- the number of VAT registration applications outstanding at the end of the month

114 The statistics also need to:

- distinguish clearly between the c 95% 'non-risk' applications and the c 5% higher risk applications;
- give an age analysis of the number of months that applications are outstanding for each category; and
- show actual performance against the 21 day service standard.

115 The methodology should be agreed in advance with the professional bodies and the results scrutinised by the National Audit Office. In this way, taxpayers and the public generally will be able to see each month the extent of the processing backlog and whether it is reducing.

116 HMRC should also publish details on the effectiveness of their approach in stopping VAT registrations from would-be MTIC fraudsters, including the number of prosecutions they have launched.

117 These measures should go a considerable way towards public confidence in the management and control of the VAT registration system. We do not consider that this recommendation should cause any additional work for HMRC, because all the figures should be available for internal management purposes.

Recommendation 3

118 **Businesses whose applications for registration are delayed beyond 30 days from the date that they are submitted should be recompensed for the extra costs incurred using a set formula based on a fixed amount and a variable amount for each day's delay beyond 30 days.**

119 Businesses that are late registering for VAT face a sanction in the form of a penalty. Given the current lengthy delays and the problems that these are causing, we think it is right for businesses and the State to receive equality of treatment. Consideration should be given to recompensing businesses that are not registered within 30 days of receipt of the application by HMRC. HMRC's target date for applications is 21 days, but 30 days is the period allowed for business to notify, so it would seem reasonable for the two time limits to be the same.

120 The compensation should comprise a base fixed amount, with an added sum for continued delay, calculated on a daily basis. We think that a fixed sum of £1,000, plus £50 per day for every day that registration details were not received by the business would not be unreasonable given the considerable extra costs (eg in re-invoicing) and inconvenience faced by intending businesses. For example, if a VAT registration number was issued to a business after 41 days, it would receive fixed compensation of £1,000, plus a further £50 for 20 days, a total of £2,000. This compensation would be in addition to any interest under Recommendation 4 below and should be tax-free.

121 There would need to be a 'time-out' provision to allow HMRC to raise enquiries on the application, but the circumstances should be very tightly prescribed in the law

and relate solely to reasonable requests in relation to VAT matters. Operational and general procedural delays would of course be excluded from the 'time-out' provision.

Recommendation 4

- 122 **Businesses whose applications for registration are delayed beyond 30 days from the date they are submitted should be paid interest at a commercial rate to compensate businesses for the cash flow loss caused by the delay in recovering input tax.**
- 123 Recommendation 3 deals with the additional operational costs incurred by a business, but it does not cover the cash flow cost of the delay in recovering input tax.
- 124 We therefore consider that, in addition to Recommendation 3, HMRC should pay commercial restitution to business for this delay. The interest should be calculated on the net repayment due on the first VAT Return of the businesses and should be at a commercial rate, say base rate plus 2%, for the number of days less 30 between the receipt of the application by HMRC and receipt of the VAT registration number by the business.

RECOMMENDATIONS FOR IMMEDIATE ACTION

- 125 In the Finance Bill debate on 25 June 2007, the Minister accepted that the new measures being taken to tackle the processing delays will not result in any improvement in the short term. We are very disappointed that businesses cannot expect real improvements in the delays for at least the next six months. In the meantime, businesses will continue to suffer. In addition, Recommendations 3 & 4 above (compensation and interest payable to businesses) can only be implemented by primary legislation, which presumably would have to wait until the 2008 Finance Bill. They will therefore take another year to come into effect.
- 126 Immediate action needs to be taken to remove, or at least reduce, the additional costs, both in terms of time and money, for businesses arising as a result of the VAT processing delays.
- 127 We recommend that HMT/HMRC should announce, in operating their care and management duties in the collection of tax, the introduction of three temporary extra-statutory concessions until the VAT registration processing time has been reduced to an average of 21 days and Recommendations 2 and 4 above are implemented. These three extra-statutory concessions are set out in Recommendations 5-7.

Recommendation 5

- 128 **Businesses will not be required to charge or account for VAT on any supply made whilst they are waiting for their VAT registration to be processed.**
- 129 Implementation of this concession would mean that a business would only need to invoice its customers once (with the VAT-exclusive amount), and would not need to re-invoice customers once the VAT registration number had been obtained and have to chase payment of the VAT.
- 130 Similarly, their customers would have no reason not to pay such an invoice as they would only have to process it once. Since there would be no VAT to pay or deduct, the customer would not be making an interest-free loan to their supplier. The

business (supplier) should still be able to recover the VAT on its costs as input tax, subject to the normal rules.

131 This measure would not only remove the increased administration burden on new businesses, but it would also remove the barriers to payment by their customers and the subsequent risk of non-payment of the VAT. With this measure in place, most businesses could operate normally in commercial (sales) terms whilst waiting for their VAT registrations to be processed.

132 The recommendation would result in a loss of tax revenue, but it should be seen as the acceptable cost of reducing both the risk and the burden to new businesses who are subject to excessive delay. It would also act as an incentive to HMRC to reduce the delays as quickly as possible.

Recommendation 6

133 **Businesses will be permitted to add a supplement to the input tax claimed on their first VAT Return. We think that it would be reasonable to add a supplement of 10%.**

134 This recommendation is designed to compensate businesses for the delay in recovering the VAT (input tax) they will have paid to their suppliers on the purchase of goods and services. That VAT will have been paid by the business to the supplier, and paid in turn by the supplier to HMRC, long before the business has been given a registration number and filed its first VAT Return. We appreciate that the level of supplement is rather 'rough and ready', and we would be happy to discuss whether the measure could be refined to reflect more closely the actual costs incurred.

135 Once again, this measure would also act as an incentive to HMRC to reduce the delays as quickly as possible.

Recommendation 7

136 **Businesses that can show that they have suffered additional damage to their business because of the delays should be compensated, subject to a de minimis of £1,000.**

137 If Recommendations 5 and 6 above are implemented, only a small minority of businesses are likely to fall into this category. They are likely to be:

- businesses who have had to take out additional or extended financing as a result of the delay to their VAT registration;
- businesses who wish to deal with other EC Member States, but who cannot operate without a UK VAT number;
- businesses who have lost commercial contracts, or could not buy business property; and
- seasonal businesses who have had to delay their start-up from 2007 to 2008 because of the VAT registration delays, but still have to face the financing costs.

138 The effect of these three Recommendations, taken together, will be to reduce significantly the extra time and costs incurred by businesses as a result of the VAT registration delays. Whilst they are not a complete (and in any event only a temporary) solution, the measures will mean that most businesses should be able to operate more normally whilst they are waiting for their VAT registration. That in turn

should reduce some of the current pressure on HMRC's VAT Registration Offices caused by businesses and their advisers contacting them in order to check the position of registrations they have submitted.

- 139 The measures should act as an incentive to HMRC to resolve the delays quickly.
- 140 These measures should remain in place until a VAT registration system is in place that will provide a fair balance between the obligations of the taxpayer and HMRC (i.e. until Recommendations 3 & 4 have been implemented).
- 141 The key aim of our recommendations is to improve the position for businesses. We will be happy to comment on any other HMRC suggestions for immediate action and implementation to relieve the time and expense costs to business and will use our best endeavours to assist them in bringing the processing time back to the agreed target of 21 days. However, ultimately this is a management and resources issue that needs to be resolved by HMRC.

RECOMMENDATIONS ON OPERATIONAL MATTERS

Recommendation 8

- 142 **HMRC should register businesses for VAT after performing a limited number of basic checks, but at the same time impose a stop on repayments until all checks have been completed.**

143 Urgent action is required to reduce the backlog of applications currently outstanding. Having introduced the reverse charge for certain UK supplies with effect from 1 June 2007, the risks surrounding MTIC fraud should have been reduced. Given that reduced risk, we recommend that HMRC should carry out only a few relatively basic checks before issuing a VAT registration number, with a 'repayment inhibit' being placed on the new registration until any more detailed checks that HMRC consider to be necessary have been completed.

144 A repayment inhibit means that HMRC will not make any automatic repayment of VAT claimed on a return, but will instead subject it to further checking and proof. This will mean that HMRC may query the first VAT return from a business and if necessary would visit the business to verify the repayment. However, we consider this would be less of an inconvenience for most businesses than the current delays in registration, and VAT paying businesses should not be inconvenienced unduly.

145 However, HMRC would still need to resolve the repayment claim promptly, or the 5% repayment supplement would be payable on the first VAT Return.

Recommendation 9

- 146 **HMRC should prioritise post on receipt to deal with urgent applications.**

147 We understand that HMRC's current procedure is to deal with post in strict order of receipt, although we have received conflicting information as to whether the post is opened when received or only when it has reached 'the top of the pile'. Whilst this is an acceptable approach when applications are up to date, some delays have much more serious implications than others.

148 We therefore recommend that HMRC should open all post on the day of receipt and sort by urgency. This could be done in the order of the date from which registration is requested.

149 In the past HMRC has prioritised appropriately marked mail to ensure that it is opened quickly, so there is a precedent for doing this.

Recommendation 10

HMRC should temporarily cease requesting non-VAT information during the registration process.

150 Many respondents have commented adversely on HMRC's practice of sending out additional questionnaires requesting general tax information as part of the registration process. An example of this practice is given at Annex 9, where HMRC are asking for information relevant to PAYE etc.

151 Requests by HMRC for non-VAT information delay the registration process, and are unnecessary for VAT purposes. In addition, these requests are often made four or five weeks after the registration form has been submitted. Such requests do not help to establish a good working relationship between HMRC and taxpayers, who cannot understand why the information could not have been requested with the application itself.

152 Whilst we can see why, in an ideal world, HMRC would like to have this information, it is more important that the VAT registration system is fixed. We therefore recommend that HMRC cease requesting non-VAT information from taxpayers whilst a registration is being processed. If, exceptionally, HMRC consider the information to be essential to the registration itself and cannot obtain it internally, they should contact the taxpayer within 7 days of receiving the application, and should also explain the reasons why it is required at this stage. Otherwise, HMRC should request the information after the VAT registration has been processed.

153 Once the delays have been reduced to the 21 day target level, HMRC could consider further how this non-VAT information, if necessary for the registration, could be requested from applicants at the time when the registration form is filed.

Recommendation 11

154 **HMRC should fast-track applications from existing VAT-registered businesses where they have a satisfactory compliance record.**

155 HMRC have a policy not to fast-track any applications. We consider that this policy only adds to the current delays and needs to be reconsidered with more use made of risk analysis. If the current approach is designed to discover false applications made by fraudsters bent on committing MTIC fraud, it is unlikely that such frauds would be effected through a corporate group which already has a number of VAT registrations and has traded and filed VAT returns for many years. It is even less likely when that group is quoted on a stock exchange. These groups have extensive internal controls that would make it very difficult for any individual in them to be part of an MTIC fraud network.

156 The criteria to fast-track applications which present a low risk of fraud should include:

- holding or subsidiary company relationship;

- common ownership or similar; and
- the VAT registration history of associated businesses.

In order to do this, HMRC would need to take into account additional information provided in covering letters sent in with the application.

157 HMRC should also consider outsourcing some checking to credit control companies. This could develop later into checks on specific transactions and registration transfers, since credit control companies have access to a wide range of information not available to HMRC.

Recommendation 12

158 **HMRC should consider fast-tracking applications sent in by advisers who are members of professional bodies.**

159 Professionally-qualified accountants and lawyers, for example, are held accountable by their various institutes for complying with professional conduct and ethical rules which are subject to periodic audit. They are required to identify their clients and to exercise professional judgment when they act for them. There are also sanctions if these rules are not followed.

160 HMRC adopt a risk-based approach to the management of VAT and if applications are received from advisers who are members of a professional body, they should have a lower risk profile and they could be identified for fast-tracking at the beginning of the registration process.

161 It may therefore assist HMRC if they had to carry out less checking on an application where they knew that it had already been subject to a checking procedure.

162 For example, it would not be unduly onerous for a professionally qualified adviser to confirm to HMRC in a covering letter submitted with an application:

- that the client identification procedures have been followed;
- that the client had been known to his firm for X years; and/or that
- where they had recently taken on the client, they had received a letter from the client's previous professional adviser confirming the bona fides of the client.

163 We would be happy to discuss this area further to see whether professional firms could provide some comfort to HMRC so that the applications could be fast-tracked as low-risk.

JHEA/FJH
3 August 2007

ANNEX 1

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**; see <http://www.icaew.co.uk/index.cfm?route=128518>.

ANNEX 2

WHO WE ARE

1. The Institute of Chartered Accountants in England & Wales is a professional body representing some 128,000 members. The Institute operates under a Royal Charter with an obligation to act in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).
2. The Tax Faculty is the centre for excellence and an authoritative voice for the Institute on taxation matters. It is responsible for tax representations on behalf of the Institute as a whole and it also provides services to more than 11,000 Faculty members who pay an additional subscription.
3. Further information is available on the ICAEW Tax Faculty website at www.icaew.com/taxfac or telephone 020 7920 8646.

ANNEX 3

CASE HISTORIES SUPPLIED BY MEMBERS ETC

CASE 1 Motorbike Dealer

Application Made: February 2007

Business cannot open. It is essentially a summer business and the best part of the season is here and moving swiftly away. EU suppliers will not deal without a VAT registration and business needs to import.

Trade suppliers will not open accounts without VAT registration to prove a bona fide trading company. VAT registration held since the early 80s on another company.

HMRC lost paperwork, no response after being re-sent.

Complaint made to MP.

CASE 2 £multi-million company about to be floated

Application made: 26 April 2007 to Newry

9 May - not logged onto HMRC's systems - told logging applications received up to 21 April.

22 May - told that the application had been logged and transferred to Wolverhampton

23 May - Wolverhampton said that the application had gone there "because a lot of Newry's work is being farmed out to other offices as Newry is winding down its processing operations".

Registration obtained on 11 June 2007.

CASE 3 UK subsidiary of a German company

Application made: 14 May 2007 online

Company unable to trade without a VAT registration number. The anticipated turnover is more than £500,000 pa.

Called Newry in early June to be told the delay was then about 8 weeks owing to 'shortage of staff'.

CASE 4 Recruitment agency

Application made: online

After 12 weeks and after filing in various supplementary questionnaires, HMRC said they needed more time to issue a VAT registration and that this could take up to a further 12 weeks.

Business did not want to have to issue pro-forma invoices.

HMRC official at the Newry office said that they take their instructions from a specialist centre in the UK and that they must follow their orders. They are not allowed to provide contact details for this centre.

HMRC want to see signed contracts now and this is to demonstrate we are in business and doing what we say we are doing. My client's contracts can be 50 pages long. They will not accept email.

Contact in the Newry office says that staff there are over worked and terribly frustrated with the whole system.

They are not conversant with present day business and are asking the wrong questions, resulting in unsatisfactory answers and so the paper trail continues until everyone concerned becomes desperate.

CASE 5 Builder

Application made: 13 April 2007

11 May - telephoned HMRC Newry. After being kept on hold for 20 minutes, given case reference number and told that it would take no longer than two weeks.

4 June - told that it will take another 4 to 5 weeks. This has created a cashflow problem, because business will not get paid on the pro-forma invoice.

27 June 2007 - VAT number issued.

CASE 6 Type of business not known

Application made: 27 April 2007 to Newry

27 April 2007 - new application for existing trader needing to register for VAT.

7 June 2007 - told by the Newry office that they are currently processing applications from 2nd April.

Our client is struggling to cope with this, initially they issued no invoices waiting for the VAT number, they then issued invoices because they were going broke, but cannot get the VAT in because they do not have a VAT number, when the number is eventually issued they will have to reissue at least two months' invoices and try to persuade at least two months' worth of customers that having, they thought, paid for their goods they still owe a bit more. Twice the work over a short period is a pain but this is getting too much. Also, during this delay they are being pestered by other customers wishing to reclaim their input VAT but do not have a VAT invoice to claim on.

As it was us who advised the client they should be registered for VAT and we then said 'don't worry we'll handle the paperwork', the exceptional delay is causing a strain on our relationship and we could end up losing this client because of the problem.

CASE 7 Partnership using VAT 68 procedure

Application made: 16 March 2007 to Newry (transferred to Grimsby)

16 March 2007 – submitted forms to Newry for registration of a partnership business with transfer of VAT number to the new company.

7 June 2007 - told by Newry that all transfers nationally are now to be dealt with by the Grimsby office so all paperwork has been transferred there. The Grimsby office were very helpful and have put the case as a priority as the application form was sent in so long ago.

In this case, with a transfer of number, the client knows their VAT number already and is not particularly concerned at delays in issuing VAT Returns for them to complete and have to pay the VAT due. Our concerns are that, when the correct Returns are issued, there may be more than one Return due and the client could easily be embarrassed by a cash flow dilemma trying to settle the liabilities. We also feel that a delay of nearly three months is completely unacceptable.

CASE 8 Recruitment agency

Application made: 11 April 2007 to Grimsby

11 April 2007 - VAT 1 sent to Grimsby requesting registration from 1 May 2007.

12 June 2007 - letter received asking for further information which has nothing to do with VAT. This includes a warning that if the information is not received within 21 days, then the application may be withdrawn. HMRC also sent a questionnaire, a copy of which is attached at Annex 9.

CASE 9 Property companies

Applications made: 2 June 2007 to Grimsby

2 June 2007 – VAT registration applications for two property companies submitted to the VAT Registration Unit in Grimsby.

15 June 2007 - telephone conversation revealed that applications received on 16 April 2007 were being processed on that date (ie two months delay) and that a complaint should be made if unhappy with the position.

The two property companies concerned are buying property subject to VAT at a purchase price of just over £10 million with a VAT cost of £1.75 million. The VAT element of this transaction is subject to bridging finance which is expensive. Under normal circumstances the registration would be completed such that a VAT quarter to the end of July could be obtained and the company would recover its VAT in August. It is unlikely that the VAT registration will be obtained before the end of August and the VAT recovery will therefore be delayed beyond the normal expectation by some two to three months. The cost of this is approximately £9,000 by way of interest for each month's delay in obtaining the VAT repayment.

CASE 10 Business type not known

Application made: 18 April 2007 on line

18 April 2007 – application submitted online

14 May 2007 - date of certificate of registration

This appears to be quite a good turnaround time compared with other reports.

This experience was much better than previous experiences for applications made by the same person on behalf of various clients, who experienced significant and costly delays - eg a construction company waiting on a large VAT refund for months which could have killed the whole project. Phone queries about progress were generally met with brusque and rude responses.

CASE 11 Public house

Application made: 12 April 2007 to Carmarthen (transferred to Grimsby)
12 April 2007 – application for registration submitted for a public house which was commencing trading on 17 April 2007.

16 May 2007 - contacted the Carmarthen Central Registration Office to be informed that had referred the application to their Grimsby office on 13 April 2007. Grimsby acknowledged that they had received the documents on 13 April, but that they were only dealing with registrations up to 28 March at this point. Upon requesting information regarding how the business was to carry on regarding its VAT compliance, advice was given that it would just have to wait and that it was lucky because the Wolverhampton Central Registration Centre was even further behind.

18 June 2007 – VAT registration number received with an effective date of 17 April 2007.

Note that this business is a partnership and that online registration was difficult and therefore avoided.

The member concerned is involved in Working Together and told the HMRC employee in Grimsby that he would probably report the difficulties. This was greeted with the response that she hoped more people would complain in the hope that something would be done about the organisation of the VAT Registration Centres (ie keeping them fully staffed etc as that appeared to be the dilemma).

CASE 12 Computer consultant

Application made: 9 May 2007 on line
9 May 2007 – on line application submitted to register a one man band limited company in computer industry with expected turnover in first year of £100,000.

18 June 2007 - letter received from Wolverhampton requesting the following:

1. Details of any wholesale trade including volumes/quantities and details of goods.
2. A copy of the business plan outlining the business and its aspirations.
3. Copies of contracts for purchases and sales from major suppliers and customers.
4. Copies of purchase and sales invoices.
5. A list of main customers and suppliers with VAT numbers.
6. A copy of the signed lease for the business premises.
7. Copies of advertising materials e.g. yellow pages etc.
8. Copies of e-mails or official business letter headed written correspondence with potential customers and suppliers.

HMRC refuse to process the VAT application without this. Of course much of the above is irrelevant and there is no formal business plan, let alone goods in the wholesale trade!

None of the above questions are on the VAT application form (which raises the question as to why not if they are so necessary to deal with fraud?).

Why cannot HMRC register him and then check him out as and when he makes a large repayment claim (which he will not)?

CASE 13 Sole proprietor using VAT 68 procedure

Application made: 17 May 2007 to Wolverhampton

17 May 2007 - VAT 1 and VAT 68 submitted with transfer of trade planned for 1 July 2007.

19 June 2007 - called HMRC Wolverhampton at 3.20 pm to be advised by reception that the registration team only works 10.00 - 3.00.

21 June 2007 - called again at 10.10 to be advised that they were now logging post received on 17 May. They envisage dealing with the registration and getting back in about another month.

We are lucky in this instance as we are going for a transfer of VAT number in any case. If this were not the case, we would have issues re invoice printing, notifying customers/suppliers etc.

Why cannot the office open from 9.00 - 5.00 (or later?) like the rest of the business world?

If a business is required to register with the 30 day time limit in mind it cannot be acceptable for HMRC to take two months to process registration applications.

CASE 14 Business advisory and tax practice being transferred into a new limited company after 17 years.

Application made: December 2006

September 2006 - HMRC approached to get approval for the reconstruction.

November 2006 - new company set up under existing name.

December 2006 - application submitted for VAT registration on the new form.

5 January 2007 - letter received requesting additional information.

12 January 2007 reply sent to HMRC, including an explanation that a bank account was still being set up and enclosed a copy of the online application and that no invoice had been issued at that stage as the company had only just started trading.

1 February 2007 - letter dated 29 January 2007 received saying that due to the number of bogus applicants our application would take another 12 weeks. Rang the registration department and was told to increase prices until the number was issued. Having said this I couldn't refer to the increase as VAT because I wasn't registered.

Started issuing pro-forma invoices with accompanying letter explaining that they would be re issued. The complaints department was also contacted.

16 February 2007 – standard letter sent to acknowledge complaint. When letter received, MP contacted. He also received a letter which did not take into consideration the fact that this was an existing business that had been paying VAT for 17 years.

22 February 2007 - letter sent to the Adjudicator's office detailing the problem.

19 March 2007 - letter dated 16 March 2007 received from HMRC requesting more information on the business.

21 March 2007 - telephone call made, following which information was faxed. Details included sales and purchase invoices and a copy of the lease. Bank details were also resent, having previously been sent upon their arrival in early February. A copy of the information also faxed to the Adjudicators office.

26 March 2007 – letter received enclosing the usual booklets and an explanation of the screening program for registration.

5 April 2007 - letter received from the Adjudicator's office stating that as we had not received a reply from the HMRC complaints department they could not proceed with the case at this stage. The reply from the complaints department was to be at director level.

16 April 2007 - received a letter dated 12 April 2007 from the Local Compliance Complaints Team, again referring to the excuses for the delay in registration, and suggesting that registration was likely to be obtained by the end of May 2007. A copy of this letter was sent to the Adjudicator's office.

15 May 2007 – acknowledgement of receipt of letter received from Adjudicator's office, which suggested that HMRC may decide not to register us. HMRC contacted again suggesting that as turnover had already reached nearly 40K, the business had to be registered. Another letter sent to the local MP, who didn't come up with any solutions.

30 May 2007 – letter sent to the registration department chasing the registration.

15 June 2007 – rang registration department to be told that the application was with the automated department in Cardiff and that they could not be called (even registration got a telling off when they tried to call).

18 June 2007 – telephoned a senior member of complaints department who said that he had been looking into the case. He said that he had identified a point in the process where the business had been let down and had contacted the automated department to make sure that the case was dealt with promptly.

29 June 2007 – telephone call received with an invitation to attend a meeting at an HMRC office. Offer declined in favour of a meeting at the business premises on 4 July 2007.

4 July 2007 – meeting held with HMRC at business premises. It was noted that the visiting officer did not have all the information previously sent to HMRC, so an element of recapping was required. A 9-month first VAT period was requested, but no guarantee that a VAT registration would be forthcoming was given by the visiting officer. The overall impression given was that the right hand didn't know what the left was doing. For example, the visiting officer seemed to be unaware of the office in Cardiff.

13 July 2007 – VAT registration number received.

As a result of the pressure caused by the attempt to register for VAT, the owner of the business has decided to put it up for sale and return to consultancy work.

CASE 15 Freelance Project/Programme Management contractor

Application made: 11 April 2007 to Newry
Limited company formed in April 2007.

First week in June 2007 - chased the application and advised that the VAT number should be issued within 10 days.

16 June 2007 - set of questions received from Newry regarding nature of supplies, identity of suppliers and customers and requesting details of any website, examples of marketing, purchase orders, invoices and bank statements.

19 June 2007 - response completed with attachments of various documents as evidence of the company in operation.

21 June 2007 - telephoned Newry office and advised to expect the VAT number sometime in **October** 2007. The reason given for this was that further security checks have to be carried out.

CASE 16 Business type not known

Application made: 30 April 2007
30 April 2007 – application received by Wolverhampton

18 June 2007 - request received for additional information.

It is easy to get through to Wolverhampton and they are quick to tell you of progress.

My customers will not pay any VAT on invoices until I have a VAT number.

CASE 17 Distributor of microbiology equipment and reagents

Application made: 20 October 2006
20 November 2006 - request for further information received.

27 November 2006 - letter apologising for delay received.

25 January 2007 - request for yet further information received.

25 April 2007 – telephone call made to follow up the application - advised gone for further checks.

Company is a subsidiary of a French parent that distributes microbiology equipment and reagents. It obtains customers and sells on a commission basis all goods being distributed from France. All the directors are French, and it has a couple of employees in the UK. The group has representation in many other countries throughout the world.

CASE 18 Limited company

Application made: 28 January 2007 on line

28 January 2007 - application made for VAT registration of limited company established 20 years ago but dormant since then.

30 April 2007 – registration received following several email reminders.

The comment was received that it was not possible to use the helpline because no VAT registration was in place. No communication or questions were received between the on line application and the registration being received, only an apology when finally registered.

CASE 19 Manufacturing business

Application made: 23 April 2007 to Grimsby

23 April 2007 - registration requested from 1 June 2007 and a first Return period of one month so that business can recover input tax on capital expenditure of over £350,000.

25 April 2007 - phoned VRU to be told Grimsby were 'only just opening the post for the last week in March'.

12 June 2007 - phoned VRU to be told by the switchboard to try later as the phones were down. Phoned later, but told that registration department not taking calls as too busy. Put through to complaints dept. Assured 'someone would get back to me'.

2 July 2007 - received two letters from Grimsby. Letter 1 acknowledgement of complaint, advising that someone would contact the business by 24 July. Letter 2 contained the VAT registration, but the first Return period is for 4 months to 30 September. Business will be unable to recover the input tax on £350,000 until October at the earliest. 'The strain on our cash flow is unwarranted.'

5 July 2007 – VAT registration certificate received confirming date of registration as 1 June 2007 (sic).

There is no acceptable reason that this process should have taken so long.

There is no acceptable reason for the stress that I and my fellow directors have had to endure.

There is no acceptable reason why our first return period could not have been for one month as requested. The strain on our cash flow is unwarranted.

CASE 20 Property Developer

Application made 29 January 2007.

2 February 2007 - received letter from HMRC requesting further information.

6 February 2007 - replied by fax. Registration unit happy all details received, sent for further checks on 12 Feb.

26 April 2007 – Telephone call informed us of further checks. Informed that we should have received a letter informing us of this development. No letter was received. Informed that process could take 12 weeks.

10 May 2007 - No further communication received from HMRC, so called and spoke to (HMRC officer) who could not give me any information. Asked to speak to supervisor and given her number. Left message for her to call.

13 May 2007 - Had message from supervisor.

17 May 2007 - Left message for supervisor.

21 May 2007 - Spoke to supervisor. She said that they could not chase it yet as the further check people were 10 days away from checking our reg. Said when they look at it it could take up to 3 weeks. She said to call her in 2 weeks as they would be checking ours by then and then she would be able to chase it for us.

20 June 2007 Had heard nothing, so called supervisor. Told her our papers had been checked by a higher officer on 8 March and they were complete. Then put in another queue to be looked into properly. Supervisor said on 20 June HMRC were still checking those rec'd on 19 February, so ours was 2 or 3 weeks away from being checked. Once check starts then it can take up to a further 3 weeks, so do not expect anything for 6 weeks. Supervisor admitted that it was unacceptable, but nothing they could do. HMRC trying to change wording on the letters that go out saying that it can take 20 weeks, not 12 weeks as currently stated. Advised that only course of action is to write a complaint.

This situation is unacceptable as we find ourselves unable to trade on an equal base as others in the same trade, property development. I now find myself in a financial quandary as I have paid refundable VAT amounts that I cannot reclaim and have not included in my budgets.

ANNEX 4

COMMENTS FROM MEMBERS ETC

The following extracts are taken from emails that were received during May and June 2007.

Example 1

My long standing VAT registration has been approved! Just 20 weeks...Not a hint of an apology!

Example 2

The old issue of delays in processing VAT registration applications continues to cause frustrations. While some of the stories I am hearing may be apocryphal, 2-3 month delays seem to be the norm and in one case I have heard of, the taxpayer has been told after over 2 months that their application has been selected for in depth checks that will take about another 3 months!

Example 3

I am amazed that it is taking so long to register businesses for VAT. The last two which were registered have taken 8 weeks and 2 days. The first one was a telephone cabling company and the second one is a payroll company. I cannot understand why registration is taking so long and I wonder if you could direct some questions to the appropriate authority.

Example 4

Several instances have been reported where an application has been returned unprocessed due to no banking details being included on the VAT1. The effect of this is that the application has to be resubmitted and start again from the bottom of the pile.

Historically, it has been possible to submit an application with a statement to the effect that bank account details are currently unavailable but will be advised in due course. We are unaware of any legal requirement for a business to have a bank account.

Example 5

I lodged a VAT 1 and VAT 68 on 9 May with Deansgate - to be told that it had been passed on to Grimsby. When I phoned Grimsby to chase the application on 11 June, I was told that the correspondence had not even been logged onto the system yet.

Example 6

I have been using the online registration service for about 4 months. Initially we were getting registration/queries from Wolverhampton within 2 weeks max

Since April, we have had nothing apart from one query from Wolverhampton, which was valid. I was referred to Newry by Wolverhampton about a form submitted on 26 April and spoke to someone at Newry who told me that they were processing applications 9 weeks behind. On the other hand, a client who submitted an online

application himself 3 weeks ago received his VAT certificate/number last week from Carmarthen.

We find the officers who deal with our chasing telephone calls are quite co-operative, but all they can do is look up the progress details of the particular client on their system and give an indication of when our application will be dealt with.

Example 7

We are registering all our clients online. However it does not appear to be any quicker. HMRC are always asking for further information. This is partly due to the fact that with an online application we are advised not to send by post any further information until it is requested. If the further information requested by HMRC is not provided within 30 days the application automatically lapses. I have phoned one day after an application lapsed only to be told that it could not be resurrected. When I complained the officer at Newry became quite defensive and was extremely unhelpful. He said we should reapply online and then phone in two weeks to progress the application. This goes against the advice given by HMRC not to phone.

The officer did tell me that it was not unusual for applications to take in excess of six months.

Example 8

The longest delay currently experienced here is 12 months though the average is 8 weeks. I deal with most new registrations in the firm and find the VAT office are increasingly not reading the information supplied and are trying to extend out the scope of the enquiries. They were also increasingly trying to ring the clients although we circumvent this now by only giving our office number as agents. In general we have come to dread when a registration is required!

Example 9

I am joining the club! I registered an unincorporated business some weeks ago. The exact date escapes me. Needless to say, I did this online thinking it would be faster than paper! The client's bookkeeper was chasing for a VAT number, so I called the "help" line and eventually was put through to someone who told me that it was taking at least 12 weeks to complete the process, and that "they" wouldn't talk to anyone if the registration wasn't at least 5 weeks old. My client is distinctly unimpressed. What kind of service must he think I am giving him?

Example 10

We have been submitting VAT1 registrations online. We have then submitted VAT Flat Rate Scheme applications on paper to Grimsby. The VAT Office have telephoned us to say that all Flat Rate Scheme applications without VAT numbers on them will be thrown in the bin and new applications will be required when a VAT number has been issued. This presumably will delay the application of the flat rate scheme and reduce the 1% reduction unless the application is backdated to the date of registration.

Update provided 4 July 2007

VAT office Grimsby have returned the FRS applications. We complained to Grimsby and they told us that if we e-mail the FRS application once the VAT number is issued they will deal with the application as a priority and date it from the registration date.

They said paper VAT1 can have FRS applications attached, but this does not apply to on-line VAT1.

They also said no priority is given to on-line VAT1 and as at 3 July 2007 they were dealing with 8 May applications.

Example 11

Online VAT registration completed with client in office on 13 April 2007. Rang Grimsby Registration unit to find out what was happening on 15 June and was told that they were only dealing with the post of 12 April at that time.

Example 12

We applied on line for a registration number on 11 April 2007. We have not heard anything over 60 days later. Apparently they sent out the registration on 15/06/07 second class. Considering the delays you would have thought it reasonable to send out the registration first class. As yet the certificate has not been received. We just looked at another one - applied on 19/03/07, eventually dealt with on 10/05/07. Both these were dealt with by Grimsby.

Example 13

Yesterday (25 June) I telephoned the VAT National Advice Line and was told that it is currently taking 12 weeks for a new application to be processed.

Example 14

We applied for VAT registration on 17 April 2007, but still not received it as at 26 June. Newry office is telling us it is taking 8-10 weeks.

Example 15

30 days - I think not! We use the eRegistration service and I am still waiting for registrations to come through from early May. Speaking to Newry earlier this month I was told that they are currently taking upwards of 8 to 9 weeks.

Example 16

Newry is still listed on HMRC's website as being the office to which to send certain VAT registrations. Even if the post is automatically redirected I would think that this would cause even longer delays for applications sent to Newry.

Example 17

I have recently submitted a VAT group registration application to Carmarthen and have been advised that all VAT group applications are now being handled by Grimsby. Unless I have missed it I don't think this is apparent anywhere on HMRC's website.

Example 18

When telephoning Newry, there is always a delay of 20 to 30 minutes before they answer. Is HMRC making money on these calls?

ANNEX 5

COMMENTS FROM VPG MEMBERS

- 1 It appears that although HMRC are encouraging applications online the time delay in registration is the same.

In addition in virtually every case when further information is requested by HMRC, if this is not provided in 30 days the application lapses and a new application is required. This seems that there is one rule for HMRC and one for the taxpayer.

In one case this week we were one day late in submitting further information requested and despite pleading with the registration section in Newry we were told that the application could not be reopened and we had to reapply.

2. An online submission made 30 November 2006, still no number reference. Client is a small recruitment agency in the audio visual sector with nothing in its activity that might be regarded as suspicious.

Client has written to their MP and now I cannot ring Newry because all "advisers are busy" I have sent a fax but not holding my breath.

Registration still outstanding at 18 June 2007.

3. Oh how I hate advising clients to register...

Most recent registration - VAT 1 received at Newry 28 March. On 2 May, told they were processing those received on 12-13 March (so if they take longer than one day to open one day's applications, they fall even further behind). 23 and 24 May tried to call three times and couldn't get through.

Certificate finally issued 5 June, so ten weeks after first receipt - and I consider that to be reasonably fast. Am planning for three month delay on a 'regular' registration and more for one requiring additional information/queries!

They all seem very nice when they are chased, but clearly the system is an absolute shambles...

4. When you ring either Newry or Grimsby you are quite openly told that post is not even opened until it is four weeks old. This means that you have no means of knowing if the application has gone astray or not.

I was told by an officer in Newry that they have a "backlog situation". I would say that the backlog is increasing. They were saying at both offices that applications would take 6-8 weeks in April but they are now not even looking at applications until they are at least 8 weeks old.

The applications are dealt with in order of submission - there is no ability or willingness to deal with urgent cases. When I asked for the VAT number to be faxed to one client - who had been waiting for it for 10 weeks at this point - I was asked to send a fax explaining why it was urgent that this be done.

Since the applications are not even face vetted when they are entered on the

computers they often look at it after 8 weeks, decide that they need extra information and send out a standard questionnaire and this creates an even longer delay. If the standard questionnaire had been sent out at the 4 week stage then this information would already have been available at the time of processing.

Why is all post sent out second class? This adds a week's delay to the process with every round of correspondence. Surely as an interim measure some consideration could be given to sending things out first class.

All the cases below are recent and absolutely typical.

Case 1

Two applications sent to Grimsby on 2 April (one a pension scheme with an opted property, the other a building partnership).

Received there on the 3 April.

Called on 2 May - Putting applications for 2 April on computer that day - working on 16 March applications at that point.

Called on 17 May - working on 28 March.

Called on 24 May - Working on 30 Mar/2 April.

Called on 30 May - The building partnership had the wrong front sheet on it so it would be delayed an extra day.

Both numbers finally received on 8 June.

Case 2

Application for property developer. Sent to Grimsby on 13 March.

Received there on 14 March.

Called on 28 March - working on post received on 22 February.

Called on 12 April - Working on post received on 5 March.

Called on 30 April - Case allocated but further information to be requested.

13 May - Letter & questionnaire sent back by client.

21 May - VAT number issued. Trade class shown as Architects - another letter needed to correct.

Case 3

Forms sent into Newry for three separate legal entities but same business (two TOGC's and a late registration for middle co - one dereg, one reg/dereg and one reg) Requested that the current business No 3 needed VAT number urgently as it was to take over business on 1 April - Applications submitted on 21 March. Received on 22 March.

Called on 23 April - advised taking 6-8 weeks at present.

27th April - NRS at Wolverhampton send out a letter to Co. 2 saying they should be registered. Rang and explained to the officer that if his colleagues in Newry had put the application on the computer which they had already had for over a month then he would be able to see that he was wasting both his time and ours.

Called on 14 May - three abortive attempts to get through. Got through on the fourth attempt. Working on cases from 20 March.

Called on 16 May - Still working on cases of 20 March. Unreceptive to any idea of special treatment.

Called on 18 May- No's 2 & 3 had been allocated to separate officers even though sent in together with one covering letter and a request that they be read in conjunction with one another. One officer (Co. 2) rang up and asked for further information and this was e-mailed to him on the same day. The other one (Co. 3) sent out a request for information since she was going on holiday the next week. She was not at her desk when I rang and whilst the person answering the phone could tell me a request had gone out she could not tell me what was being requested and was clearly not interested in trying to find out. Simply told I could fax the information back.

21 May - Request for information received and information (some of which was already in the covering letter) faxed back. Rang to find out that the officer was on holiday. Asked if anyone was covering her work and was told that this hadn't been decided yet!

29 May - Rang officer on return from holiday. My fax was on top of her pile and she would look at today.

31 May - Rang again. Their computer system had been down and she was waiting for VAT number for Co. 2. Asked her to check and the number was there. She said she would pass it on and a number would be issued in 5-7 days - my request for it to be faxed out was met with a request to explain why it was urgent.

11 June - VAT number for Co. 3 arrived. Meanwhile Co. 3 had been trading since 1 April and hadn't been able to issue an invoice.

The delay in registration is having a huge impact on ordinary law abiding client who simply cannot understand why they can't fulfil what is after all their legal obligation.

ANNEX 6

NEW CLAUSE 4

DUTY ON HMRC TO EXPEDITE VAT REGISTRATION AND REPAYMENT APPLICATIONS

'(1) It shall be the duty of HMRC to determine applications for—

- (a) registration for VAT, and
- (b) repayment of VAT by HMRC

within a maximum period of days from the receipt by them of the relevant application.

(2) The Treasury must by Order specify the maximum period mentioned in subsection (1), having first consulted HMRC and persons representing small businesses.

(3) If an application of a kind mentioned in subsection (1) has not been determined by HMRC before the expiry of the maximum period specified by the Treasury in accordance with subsection (2), the applicant may apply to the Special Commissioners for a declaration that the application is deemed to have been approved by HMRC.

(4) The Special Commissioners must grant an application for a declaration under subsection (3) unless they are satisfied that HMRC has reasonable grounds for having failed to determine an application in accordance with subsections (1) and (2).

(5) Grounds shall be treated as reasonable under subsection (4) only if they relate to circumstances beyond HMRC's control.'— *[Mr. Gauke.]*

ANNEX 7

HANSARD

EXTENT OF REGISTRATION DELAYS

WRITTEN ANSWERS

1. COMMONS WRITTEN ANSWER 16 May 2007 - Lady Hermon:

To ask the Chancellor of the Exchequer what the average length of time taken was to process new business VAT number applications in (a) England, (b) Scotland and (c) Wales and Northern Ireland in each of the last 12 months.

John Healey: The average time taken to process an application for VAT registration for the following months was:

<i>Month</i>	<i>Average time taken (in days)</i>
April 2006	32
May 2006	34
June 2006	33
July 2006	31
August 2006	29
September 2006	28
October 2006	24
November 2006	23
December 2006	24
January 2007	30
February 2007	29
March 2007	29

HM Revenue and Customs do not record separate figures for England, Scotland Wales and N. Ireland.

2. COMMONS WRITTEN ANSWER 18 June 2007

Mr. Gauke (Con, South West Hertfordshire): To ask the Chancellor of the Exchequer what percentage of complete and accurate VAT registration applications were processed within 21 days of receipt in each of the last 12 months for which figures are available.

Dawn Primarolo: HM Revenue and Customs currently record processing time for all applications and no longer distinguish between those that are either complete or incomplete. The latest available monthly figures are as follows:

<i>Month</i>	<i>Percentage of applications processed within 21 days of receipt</i>
2006	
April	60
May	56
June	57
July	57
August	59
September	71
October	88
November	85
December	79
2007	
January	58
February	63
March	60

ANNEX 8

SUMMARY OF VAT REGISTRATION STATISTICS FROM THE JVCC MINUTES AND HANSARD

VAT REGN STATS

Processed Within Per PQs avge days	7 days	14 days	21 days	56 days	95% in days
2006					
April 32					
May 34					
June 33					
July 31	11%	n/a	58%	15%	n/a
August 29					
September 28					
October 24					
November 23	n/a	n/a	60%	5%	31 days
December 24					
2007					
January 30	n/a	37%	n/a	n/a	24 days
February 29					
March 29					
April 2007	n/a	19%			29 days
Hansard, 7 June 2007					under 30
Hansard, 25 June 2007					38 days

ANNEX 9

REGISTRATION REPLY SECTION

Contact name:
Our Reference:

Please confirm the spelling of your full name

.....

Do you supply workers/staff to customers?

.....

How many staff/workers do you normally supply at a time?

.....

Please provide a copy of the contract with your employer. If you do not have a contract please provide their full name and address.

.....
...

Please supply a copy of your Employer's Liability Insurance Certificate.

.....

Please provide two recent sale invoices and two recent purchase invoices.

.....

Do you have a PAYE Scheme? If yes what is the reference number?

.....

Are you a Construction Industry Scheme registration card / gross payment certificate holder?
If yes, what is the reference number?

.....

SIGNATURE

Please sign the form in the space below. It is important that the above changes are authorised by either a Partner, the Sole Proprietor, a Director or Company Secretary, Chairman, Trustee or Treasurer as the details can only be amended with the written authority of the registered person:

Signed.....**Date**.....

Full name

*(Proprietor / Partner / Director / Company Secretary / Chairman / Trustee / Treasurer)

ANNEX 10

HMRC WEBSITE ANNOUNCEMENT, 17 July 2007

From HMRC's web site, 17 July 2007

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_FAQs&propertyType=document&columns=1&id=HMCE_PROD1_027655

FAQ: Application processing times for VAT registration

When will I get my VAT registration number?

Unfortunately we are currently unable to process applications for VAT registration as quickly as we would like. We are working hard to improve this, but the average time to process applications is 38 days at present.

If your application was sent to us within the last 6 weeks, we would ask that you do not contact us to chase progress. We will not have any additional information to provide and dealing with these enquiries takes resource away from processing and can create further delays.

Why is it taking so long?

VAT registration can be the entry point to very significant VAT fraud. To counter this, a small number (around 5%) of applications need further checks before they can be processed. These checks can take up to 15 weeks although most are completed more quickly. If your application needs these additional checks, we will tell you in writing.

How do I account for VAT in the meantime?

You should be aware that you are required to account for and pay any VAT due from the date you are liable to be registered, not just from the date you apply for registration or from when you receive your certificate.

Although you cannot charge VAT before you are registered or show VAT as a separate item on any invoices you issue, you can change your prices to include VAT. You can do this from the date you should be registered and before you receive your Certificate of Registration. You will need to explain to your customers that you will be sending them VAT invoices later. Once you have your registration number you should send the invoices, showing VAT, within 30 days. If you have asked for voluntary registration you will need to start accounting for VAT from the registration date you asked for on your application form, as long as you actually made supplies/provided services from that date.

If you are starting a business and thinking about VAT registration, you may find it helpful to build these timings into your planning.