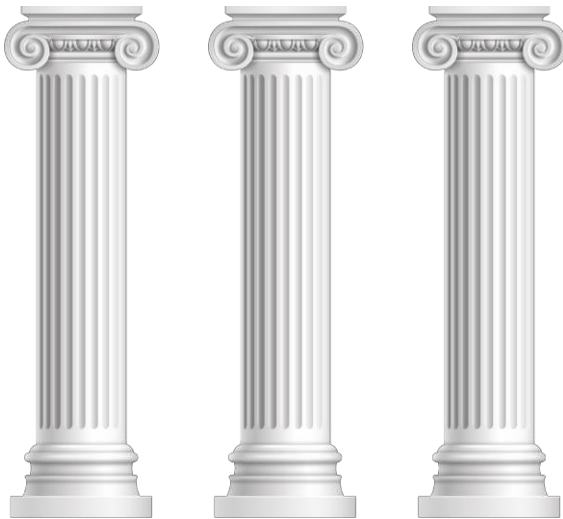


Business & Management



VAT update

20 MARCH 2019

The webinar will begin shortly...

Business & Management
60 minute webinar: VAT update



Neil Warren

“One can live for years sometimes
without living at all, and then all life
comes crowding into one single
hour.”

(Oscar Wilde)

Making Tax Digital for VAT

Joining date issues

- VAT periods beginning on or after 1 April 2019 for businesses registered on compulsory basis ie annual taxable sales exceed £85,000.
- Periods beginning on or after 1 October 2019 for following entities: trusts, not for profit organisations that are not a company, VAT groups and divisions, businesses that make payments on account, many public sector bodies, users of the annual accounting scheme.
- Example – annual accounting scheme year ending 31 August – MTD not compulsory until 1 September 2020.
- Voluntary registrations can join MTD and also withdraw subsequently if they don't like it! No withdrawal for those mandated even if future turnover falls below £85,000.

Recent HMRC announcements

- Exemptions – age, disability, remoteness of location or any other reason (plus separate exemption based on religious grounds).....guidance now available in Notice 700/22.
- No penalties in first year as long as taxpayers make every effort to comply with MTD – soft landing period – cut and paste is acceptable (ie non-digital link)
- Soft landing period extended to 30 September 2020 for businesses mandated from October 2019 (rather than 31 March 2020).
- Statement posting rather than invoice posting for cash accounting scheme users?

Clarifying the myths

- Business must notify HMRC that it must join MTD (Box 6 figures might include exempt and outside the scope income – Box 1 output tax gives clearer information).
- Petty cash expenses – do not need to be recorded digitally on an invoice basis – enter totals only into accounting system (same as employee expense – para 3.3.3)
- Key phrase – impossible, impractical or unduly onerous
- Spreadsheets – no problem with using spreadsheets rather than a formal accounting package. Bridging software needed to link totals to VAT return figures so that a digital exchange can be made to HMRC.

Joining MTD

- Businesses register for MTD via business tax account.
- Agents set up an agent services account (ASA) – and existing information on clients should transfer from Gateway to new API – but still need to individually register each client for MTD for VAT.
- Agent must have email address for each client – this will be used by HMRC for direct debit notifications.
- Direct debits – care needed! Teething problems with pilot scheme but should not need a new mandate.

Advance payments

– new rules from 1 March 2019

- Business receives advance payment from customer for goods or services - this creates a tax point and output tax liability if supply is standard rated.
- Customer does not receive goods or services in question – ‘unfulfilled supply’
- Key question – can supplier’s output tax be adjusted for cancellation/no show on basis that customer has received no supply of goods or services?
- Business Brief 13(2018) - 13 December 2018 – took effect on 1 March 2019 – no change in law only interpretation of legislation following two CJEU cases.

Business Brief 13(2018)

- “When a full or part payment is made on account for a taxable supply, a chargeable event occurs and VAT becomes due on the amount paid. If the supply does not take place, the VAT must not be reduced, unless the payment is refunded.”
- Air France-KLM (C-250/14) – air tickets within French territory (subject to 5.5% VAT) not refunded to customer – VAT due because the relevant issue was “the passenger’s right to benefit from the performance of the transport service regardless of whether the passenger exercises that right.”

Dealing with deposits and advance payments – three stage process

- **Stage 1** – Does the deposit relate to a taxable supply of goods or services? Yes = go to Stage 2; No = no output tax is due.
- **Stage 2** – Is the deposit non-refundable? Yes = go to Stage 3; No = if it can be refunded, no output tax liability is created by the payment. Examples in notes – deposit on rent is refundable at end of rental agreement.
- **Stage 3** – What is the tax point? Payment date by customer unless an earlier invoice has been raised and the business is not on the cash accounting scheme.

Reverse charge for construction services – 1 October 2019

- Reason – to reduce Missing Trader Fraud – supplier charges output tax and disappears – tax is never paid to HMRC.
- “Specified services” – supplies to construction businesses and not end user customers – output tax accounted for by customers with reverse charge – no VAT charged by supplier – zero-rated supplies not included.
- Example – Mike (electrician) invoices Steve (main contractor) for £2,000. Steve invoices Holiday Hotel Ltd for extension to kitchen £30,000.
- Mike - £2,000 in Box 6 (outputs); Steve - £400 - Box 1 and Box 4 (output tax and input tax); £2,000 in Box 6 and Box 7 (outputs and inputs).
- Steve charges VAT on to Holiday Hotel Ltd £30,000 + £6,000 = £36,000.
- Key points – reverse charge applies to labour and materials; flat rate scheme – supplies are ignored (excluded from VAT return); customers need to be checked (bona fide); make note about reverse charge on sales invoices – including VAT payable by customer (5% or 20%).

Brexit challenges

- VAT challenges mainly relate to supplies of goods and not services – and mainly if ‘no deal’ is the outcome.
- MOSS – threshold £8,818 reduced to zero; need to register in an EU country under non-EU MOSS scheme for supplies after 29/3 – by 10 April 2019.
- EU VAT repayment portal closes at 5pm on 29/3 for 2018 claims; no scope to claim 2019 expenses; future claims by 13th Directive method (tax certificate might be needed, different deadlines)
- VIES will not show UK VAT numbers after 29/3 – new link to gov.uk; Intrastat/EU Sales Lists – not needed
- Distance selling thresholds removed – import VAT paid in EU country of destination.

No deal challenges

- No deal – ‘postponed accounting’ for imports from both EU and non-EU countries – payment of VAT is deferred on arrival and declared in Box 2/Box 4 of relevant VAT return. Cash flow advantage! Customs duty still paid on entry (transitional simplified procedure).
- EORI number – very important this is applied for!
- No deal – triangulation? A sells to B; B sells to C; goods go directly from A to C; A, B and C are all VAT registered and in different EU countries.
- No deal – VAT registrations in other EU countries?
- No deal – extension of input tax recovery for exempt financial services to EU countries.

Budget 2018

- Budget 2018 – registration threshold frozen until 2022 - £85,000; deregistration threshold £83,000.
- If threshold had increased with inflation, threshold would be £96,000 by 2022.
- Possible outcomes – work less hours; business splitting.
- Business splitting tribunal cases – taxpayer wins: Darren Vaughn (TC6910) – split of floor screed and plastering activities; Graham and Christine Belcher (TC5891) – split of hairdressing business into two sole trader entities.
- Deregistration – future sales and not historic!

Thank you for listening

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Webinars and events – icaew.com/bamevents

Free 60 minute webinars – 10.00am

Manage change effectively
1 May

Economic update
5 June

Dealing with difficult conversations
3 July

Conflict resolution
9 October

Free 20 minute webinars – 12.30pm

GDPR update
17 April

AML update – What every business needs to know
8 May

Influencing and persuading – Promoting your brand
15 May

How accountants can become digital leaders
19 June

Free event – 6.00pm

Why don't staff always do what you want them to do?
23 April

Online e-learning – 9.30am

Rapid month-end reporting – by day three or less
21/22 May

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THANK YOU FOR ATTENDING

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