

Driving Facts

VAT news

Demonstrator Claim Update

Work is continuing to secure repayments for dealers who submitted claims prior to the end of March. Not unsurprisingly, there was a large volume of claims submitted immediately prior to the deadline and unfortunately this means that this has created a backlog for H M Revenue and Customs (HMRC). The average turnaround for claims is now six months but depending on individual circumstances some claims are taking longer than this whilst others are being processed relatively quickly.

Our partners in this exercise, Barnard Atkins Limited, are reporting that HMRC are being pragmatic in their responses and have a number of dedicated officers nationwide assisting in the claims' review and processing. Most queries are being resolved in communications with Barnard Atkins without the need for inspection visits and lead to the repayment of the agreed amount plus related interest.

We would ask all claimants to be patient and we will be in touch as soon as we have heard anything either of general application or specific to your claim.

Compound Interest / Group Litigation Order

The decision of the recent High Court hearing in relation to the application of compound interest to VAT repayment claims is also shortly expected and we will of course write to notify affected parties of any developments.

It is expected that win or lose, the case will proceed to the Court of Appeal or the European courts as necessary before the definitive judgement is received.

If you would like to discuss how your claim is progressing please telephone speak to your usual contact at Barnard Atkins.

Budget Update

The Budget did not contain any major changes or surprises from a VAT perspective but here is a roundup of the main points.

Fuel scale charges

As usual, the rate of fuel scale charge has been changed by the Budget. The new rates can be found at www.hmrc.gov.uk/budget2009/bn69.pdf and must be used from the start of your first VAT quarter commencing on or after 1 May 2009.

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Although these rates are intended to be used for cars, do not forget that HMRC will also allow their use in connection with the provision of fuel in vans for private use.

Change in standard rate

The Chancellor confirmed that the standard rate of VAT will revert back to 17.5% from 1 January 2010. Extra care will need to be taken with transactions which span this date to ensure the correct rate of VAT is applied.

Anti-forestalling legislation is to be introduced to counter any attempt to artificially apply the 15% rate to goods and services supplied after the end of December. A supplementary VAT charge of 2.5% will be applied to transactions falling within these rules.

The scope of this legislation is fairly narrow so most businesses are unlikely to be affected. The rules involve transactions where the customer cannot recover all the VAT on the supply and one of the following conditions are met:

- The supplier and the customer are connected parties; or
- The supplier funds the purchase of the goods or services; or
- A VAT invoice is issued by the supplier where payment is not due for at least six months.

These provisions will also apply if there is a prepayment of over £100,000 and this is not the normal commercial practice for such transactions.

VAT registration and de-registration thresholds

These have been increased to £68,000 for compulsory registration and £66,000 for voluntary deregistration.

Although these limits are unlikely to have any impact on your main motor trade business, they may be relevant if you run smaller enterprises either personally or as a separately trading corporate add-on to your main business.

EU VAT refund procedure

If you incur VAT for business purposes in another EU country, you may be entitled to apply for a refund of this VAT. Even if they were entitled to such a refund however, in the past most businesses failed to make



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a claim due to the complexities of making an application to a foreign tax authority.

The Budget has introduced changes to the system which means that, for UK registered businesses, applications for refunds will now be sent to HMRC rather than the tax authority in the Member State where the VAT was incurred. Coupled with a new electronic application procedure which is being introduced at the beginning of next year, it may now become worthwhile to submit a claim for even a relatively small amount of VAT.

Changes to VAT partial exemption rules

Three optional changes to the partial exemption rules took effect from 1 April this year. You can use any combination of the changes that you wish. Of course this assumes that you are monitoring your partial exemption status in the first place! Please note that references to "year" in the explanations below refers to VAT years. These commence on 1 April, 1 May or 1 June depending on what your VAT quarters are.

Provisional recovery percentage

This measure allows a business to choose to use the previous year's partial exemption percentage to provisionally recover VAT in the current year. An annual adjustment is then performed as normal at the end of the VAT year.

This method has the advantage of simplifying the calculations that you will need to perform each quarter and can also provide a cash flow benefit if your business is becoming increasingly partially exempt as you will initially be recovering more VAT each quarter than you are strictly entitled to.

Once you have chosen to use this method in a VAT year, you are not permitted to switch back to an actual basis until the following year.

Early annual adjustment

As you will be aware, the partial exemption annual adjustment is normally performed in the quarter after the end of your VAT year. You will now have the option of bringing forward this adjustment to the final quarter in your VAT year. This will be advantageous if you have experienced unfavourable fluctuations in certain VAT quarters which are smoothed out when looking at the year as a whole, as receipt of any refund of VAT caused by the annual adjustment will be accelerated by one quarter.

Use-based recovery

This method can be used by newly registered businesses in certain situations, for example during the period between when it registers for VAT and the start of its first VAT year. With this method, instead of looking at what VAT recovery would be given if the standard method was used, we look at what the costs related to the input VAT will actually be used for. This again could provide a more favourable result than the normal standard method.

If you think that you could benefit from any of these methods, please give us a call to discuss how you could implement them in your business.

Compulsory online filing of VAT returns

Many businesses already file their VAT returns online for convenience reasons, however from 1 April 2010 newly VAT registered businesses and those with a turnover of £100,000 per annum will be required to file their returns online and make their payments electronically.

There are a number of benefits to online filing, with the biggest being the extension to the time limit for both submitting the return and making payment. If you do file your return online however, you must also make any payment due electronically.

When you make your VAT returns online, you are given an extra seven calendar days to make the return and for payment to reach HMRC's bank account. A further cash flow benefit can be obtained if you decide to pay by direct debit. In this case, payment is taken from your account on the third banking day after the seven extra calendar days you received to file online. For these reasons you may decide that it would be beneficial to register for online filing now. Further details can be obtained from HMRC's website.

Three year cap becomes four

From 1 April 2010 the time limit for raising assessments will be increased to four years but with transitional arrangements for 2009 so that there will be a block from going back further than 1 April 2006. This means that it is even more important to ensure that your VAT affairs are in order as errors can come back to haunt you for a much longer period.

The flip side of this change however is that claims for overpaid VAT will also be permitted to cover a four year period.

If you have any queries on any of the subjects covered in this newsletter or on any other VAT matters please email us at vat@trevorjones.uk.com or call our helpline on 0161 493 1930.

These articles are of a general nature and specific advice should be obtained before they are acted upon.



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