

Driving Facts

VAT news

Demonstrator Claim Update

H M Revenue and Customs (HMRC) are continuing to work their way through submitted claims.

Unfortunately, although there are a number of dedicated officers assigned to this task, the average processing time for claims remains at about six months.

Barnard Atkins Limited, our partners in this exercise, are reporting that, although queries are being raised on some claims, these are being resolved relatively quickly.

Once you have received your repayment we would encourage you to consider a claim for compound interest as detailed below.

We will be in contact with you as soon as there is any specific news relating to your claim but please contact us if you have any particular queries.

Compound Interest / Group Litigation Order

As you may be aware, the High Court has issued its judgement in respect of the Group Litigation Order (GLO), which was set up to claim compound interest on behalf of dealers.

The decision was a mixed result as, although the court held that compound interest is due on overpaid VAT, the judgement stated that there was a time limit of six years for making a claim. The clock on the six years started at the date of the Court decision or public notice from HMRC that indicated that the VAT was actually payable, which unfortunately means that dealers' claims are therefore out of time. An appeal is currently being prepared to challenge this judgement.

We are also awaiting a decision in the parallel action at the VAT Tribunal. The fact that the High Court made a favourable ruling concerning the entitlement to compound interest however, can only strengthen the case at Tribunal. The time limit for Tribunal action is also different to court deadlines, as a claim for compound interest under Section 78 must be lodged with Tribunal within three years of the date the refund was made. This would obviously mean that a large number of dealers could be within time to make a claim to the Tribunal.

We will be writing to all affected dealers shortly to explain the implications of both these actions for your claim, but in general, we are recommending that if you

Issue 41 July 2009

have received your repayment within the last three years, a Section 78 claim should be lodged.

If you have any queries regarding how these judgements affect your situation, please telephone your usual contact at Barnard Atkins.

Bad Debt Relief – Make a Claim

An unfortunate side effect of the current economic climate is that the likelihood of debts going bad has increased. Although you may not be able to recover the amounts owed to you by the customer, you are able to recover the amount you have paid over to HMRC as output VAT by making a claim for Bad Debt Relief. The broad conditions for this relief are as follows:

- the debt is more than six months old
- you have written off the debt in your VAT accounts and transferred it to a separate bad debt account
- the debt has not been sold or handed to a factoring company
- you did not charge more than the normal selling price for the items

Care must be taken when deciding which debts are over six months old as it is not simply a case of looking at the date of the invoice but also what your credit terms are. The debt must have remained unpaid for a period of six months after the later of the time payment was due and payable and the date of the supply.

If your customer has made payments on account, unless it was specifically agreed that the payments related to a certain invoice, they are allocated to earliest invoices first. This can sometimes mean that an invoice is only partially paid. In order to calculate the amount of bad debt relief that is available on such invoices, you should apply the relevant VAT fraction to the gross outstanding amount. Care must be taken with this due to the change in the VAT standard rate. Remember that for an invoice raised when the standard rate was 17.5%, the VAT fraction to be used is 7/47. If the invoice was raised when the rate was 15%, the VAT fraction is 3/23.

Claims are made by putting an entry in Box 4 – “VAT reclaimed in this period on purchases and other inputs” and you must ensure that you retain a full record of claims made along with any supporting documentation with your VAT records.



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Change Of HMRC Bank Account Details

With effect from 8 July, HMRC have changed the bank details you need to use to make payment of VAT liabilities to them. If you make payment via BACS Direct, Internet/telephone banking or CHAPS, the account details have changed to the following:

Sort code	083200
Account number	11963155
Account name	HMRC VAT

If, however, you pay via Bank Giro, you can continue using the bank giro book that you currently have, until HMRC send you a new one.

As some banks may not have the new account details on file, HMRC have indicated that, in these circumstances, the old details may need to be used. They have also reassured taxpayers that, if old account details are used, the payment will still be credited to your VAT account.

Full details of the changes can be found on HMRC's website.

Amendments To VAT Scale Charges On Private Use Of Demonstrator Vehicles

As explained recently in a news article on our website, HMRC have finally issued revised tables for calculating the VAT due on the private use of demonstrator vehicles. These tables will be relevant to you if you have reclaimed input VAT on demonstrators, but there is then an element of private use of these vehicles. In these circumstances, there is an obligation to account for output VAT on this private use.

If you charge your employees for their use of the vehicle, the output VAT is based on the payment you receive. If however, there is no charge made, the easiest way to deal with the output VAT is to use rates that have been agreed between the RMIF and HMRC. These rates take the form of a table of list price bandings and corresponding amounts of VAT that is to be accounted for on your VAT returns. You should select the list price band that correlates with the list price of the vehicle typically used by the employee in the quarter.

The bandings and VAT remained constant for a number of years, but now new list price bandings have been published to tie in with the bandings used for the

PAYE averaging calculations that came into effect at 6 April this year.

The new bandings and associated output VAT are as follows:

List price band	VAT due on quarterly return
£0 - £8,999.99	15.28
£9,000 - £11,999.99	20.22
£12,000 - £16,999.99	27.67
£17,000 - £22,999.99	37.80
£23,000 - £34,999.99	56.31
£35,000 - £49,999.99	79.43
£50,000 - £64,999.99	103.69
£65,000 - £79,999.99	127.07
£80,000 upwards	Individual calculation

The new bandings take effect from 1 May 2009 and if your return period spans this date, you can choose to apportion your calculations for this quarter or only use the new rates from the first full VAT period starting after 30 April.

If you have already completed a return for a period crossing 1 May, you are not expected to revisit your calculations and can instead apply the new bandings from the beginning of the next return period.

Further tables will be issued later in the year to reflect the effect of the VAT rate change at 31 December 2009.

Scrappage Scheme – Amounts Received For Scrapped Vehicles

We have received a number of queries regarding the VAT treatment of amounts dealers are being paid for scrapping vehicles under the scrappage scheme.

These scrap proceeds are treated as normal VATable income and therefore output VAT must be accounted for on the amounts received by treating the receipt as VAT inclusive.

To simplify matters, some dealers are entering the scrapped vehicles on their DMS system as margin vehicles and then entering the scrap value as proceeds. Although not strictly correct as the vehicles technically do not enter stock, this treatment does avoid the need to perform a manual adjustment to your VAT calculations.

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. To subscribe to our Email alerts system please Email us at alerts@trevorjones.uk.com.



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