

# Driving Facts

## VAT NEWS

### Demonstrator Claim Update

There have been few new developments in relation to the demonstrator claims since our last newsletter as the relevant lead cases concerning previously rejected claims are not due to be heard until later this year. Don't forget however that HM Revenue and Customs are still inviting claims from tax payers that did not submit a claim prior to the 30<sup>th</sup> June 2003 deadline. In addition there is still time to join the group claim for compound interest.

If you are interested in taking action on either of these issues or would like further information on your specific claim please contact us.

### Budget Changes

The Budget introduced relatively few amendments to VAT legislation that would have an impact on motor dealerships. The main points are as follows:

#### Fuel Scale charges

This was the area that underwent most change as the calculation of the scale charges is no longer based on engine size and instead relates to the carbon dioxide emissions of the vehicle in a similar way to income tax car benefit charges. You should apply the new rates from the start of your next VAT period beginning on or after 1 May 2007. A copy of the new rates will be sent with your next VAT return or can be downloaded from <http://www.hmrc.gov.uk/budget2007/bn55.htm>.

#### VAT Registration Thresholds

The VAT registration threshold is increased to £64,000 and the deregistration threshold increased to £62,000 from 1 April 2007.

The registration and deregistration limits for relevant acquisitions from other European Union member States will also be increased to £64,000.

#### Transfer of Going Concern

In line with the pre budget report, the record keeping requirements have now changed so that the vendor keeps the business' records unless the VAT registration is also transferred as part of the transaction.

#### Non Business Use of Land and Property

The adjustment period for the adjustments required for non-business use has been changed to 10 years. It is important to note that non-business use is a totally separate issue to using the property for a partially exempt purpose.

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### Annual Accounting Scheme

This scheme allows businesses to spread their VAT payments more evenly over the year, making it easier to manage their cashflow. Businesses that utilise the scheme may also benefit from a reduction in the costs of complying with their VAT obligations. The maximum threshold to join the scheme has more than doubled to £1,350,000 from 1 April 2007.

### Other changes

A substitute form for notifying HMRC of the supply of a new means of transport for removal to another Member State of the European Community can be accessed from HMRC's website.

### Bumping

Following on from last issue's article on line of supply and zero-rating, this time we take a look at the re-emerging problem of bumping.

Bumping involves changing the value of a sale for the purposes of finance proposals only and leads to there being two sets of documents with differing values for each deal.

So why does it take place? As you will be aware, finance companies require a minimum deposit for a deal to be accepted. Customers can find it difficult to meet these requirements for a variety of reasons, for example if they have negative equity on their existing car. Bumping allows a deposit to either be completely introduced into the deal or to be inflated without the customer needing to pay any cash by using the part exchange value of the old car as the deposit needed. The part exchange value of the old car and the sales value of the new car are artificially increased by the same amount so that in percentage terms the deposit meets the finance company's requirements. The true sales value of the vehicle remains the same.

Customs view on such transactions is that output VAT must be accounted for on the bumped up sales value rather than the true sales value. As the dealer is not actually receiving the inflated sales price, this can leave them out of pocket.

You should also note that it may not be your sales people inflating the values but the finance company itself. This reinforces the fact that you must have procedures in place to check that bumping does not happen

The ideal situation is for the finance documents on each deal to be reconciled to the corresponding internal documentation e.g. vehicle order form and sales invoice.

If this is impractical, at a minimum, you should ensure that all your staff are aware that bumping is against company policy and spot checks should be undertaken to reinforce this. If possible, monthly or quarterly reports showing negative equity deals should be run from your accounting system and sample checked.

Finally, you need to remember that we are only talking about deals arranged via a finance house in this article. If the customer is funding the purchase via a personal loan, unless you raise an actual invoice for the bumped amount, output VAT should be accounted for on the transaction as normal.

### **Demonstrator Scale Charges – Cars over £26,000**

When a demonstrator car is used privately a VAT charge arises. Most dealers use the simplified formula agreed between The Retail Motor Industry Federation and HM Revenue and Customs to compute this charge. As you will already know, the charge is calculated with reference to the list price of the car typically used by the employee. Problems can arise if the car's list price is over £26,000 as in these circumstances a separate calculation is required as follows:

1. Multiply the list price of the car by 25%. This gives a figure to equate to the annual depreciation of the car
2. Add £250 to this depreciation figure as an estimate of repairs and maintenance
3. Multiply the total by 25% to represent private use
4. Multiply this private use by 17.5%. Round this down to the nearest pound. This gives the annual VAT charge.
5. Divide this by 4 to give a quarterly VAT charge

### **Disclosure of Undeclared Tax Liabilities**

You will have received a letter from us concerning the new disclosure facility that is being offered for a limited time by HM Revenue and Customs. Although focus has been placed on offshore income it is important to note that the provisions also cover general undeclared VAT liabilities. Please see our separate mailing for full details.

### **Have you Opted?**

We have seen a number of cases in recent months where dealers have been disposing of land and buildings that are no longer required within their business. Unless the property is under three years old such a sale is normally exempt from VAT. Sometimes having a VAT exempt asset within your business can be a disadvantage and a decision is made to turn such an asset into one where VAT is charged at the standard rate on any sale or lease of the property.

The procedure by which this is done is known as an Election to Waive Exemption or an Option to Tax. This is basically an administrative procedure where you inform HM Revenue and Customs that you no longer wish the supply of the asset by you to be exempt from VAT.

Once made, the election can only be revoked under certain limited circumstances and usually only after 20 years have elapsed. This can cause problems when an asset is sold because occasionally no-one can actually remember if an election has been made because the property has been owned for a number of years.

As Customs had to be informed of the election, it is possible to contact them to find out if an election is in place. If you are in the process of selling the property it is important that enquiries are made early on in the process as it can take a couple of weeks to receive a response.

When you are first considering the sale of a property it would be advisable to consider whether you need to contact Customs if there is any doubt over what the VAT liability of the sale will be. Failure to do so could delay completion of the sale.

In the next edition of VAT News we will take a look at why you might want to opt to tax your property.

### **VAT Spring-Clean?**

As the partial exemption year-end is fast approaching, now would appear to be a good time to review your VAT systems in order to ensure compliance, and spot any opportunities for savings that may be available. We offer a health-check service that will review the systems that you have in place, with a view to confirming that the complex VAT legislation that governs the motor trade is being complied with.

**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](mailto:vat@trevorjones.uk.com) or call our helpline on 0161 475 4700.**

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