

VAT SOLUTIONS

KEY ISSUES

- VAT Returns
- Appeals
- Business Obligation

The date for switching over to **online filing of VAT returns** and electronic payment of VAT is just around the corner. April 1st 2010 will see the new requirement for any business with annual turnover over £100,000 to file online VAT returns. In addition, all newly registered businesses, despite turnover must comply by the same rules. April 1st will also see the change in how **VAT payments by cheque** are handled. The received date for payments will no longer be noted as the date a cheque arrives. HMRC will deem payments received on the date the funds actually clear into their account.

The Budget contained no major changes in the indirect tax area, registration turnover threshold increased to £70,000, road fuel scale charges updated and confirmed changes as mentioned below on partial exemption, emissions trading and also property.

A recent case involving Corriform Ltd highlights the importance of complying with EC regulations. The Managing Director failed to complete the appropriate returns and did not return an EC Sales List. The case was dismissed due to failure to provide a reasonable excuse. An **EC statement is required** to be submitted within a prescribed time period. Failure to do so can result in penalty fines up to £500.

From 1st April 2010 judgments made in HMRC's favour by the Tribunals or Courts will be enforced **before appeals are heard**. Tax payments will be collected even though a case may be pending further review. This will provide a more consistent process which the previous approach had failed to do. Businesses are exempt from this rule if enforcement of the penalty would result in bankruptcy for the firm.

Any business involved in **international trade** and therefore impacted by **customs duty** needs to be aware that HMRC are becoming more assertive and tactically aggressive. Those businesses that are not complying with their customs obligations are at a real risk of penalties and civil action. Indications from the first quarter of 2010 suggest that despite the recession HMRC are not being sympathetic if a business is in breach of customs obligations.

Any business which makes **exempt supplies** needs to consider **partial exemption** and the impact it has on VAT recovery on expenditure. Exceeding the present de minimis threshold for input tax relating to exempt supplies means some VAT on costs will not be recoverable. This calculation has always been done on a quarterly basis with an annual adjustment. From 1 April 2010 HMRC have announced changes to the partial exemption designed to simplify work for small businesses. There will be two simplified tests that any affected business can apply to confirm whether partial exemption needs to be calculated each quarter. The annual adjustment will still be necessary.

The **VAT reverse charge** to combat missing trader fraud has been used for some years in the field of mobile phones and computer chips. With effect from 1 November the measure is to be extended to **trading in emissions allowances**. This is an area of activity that is becoming more common and one where HMRC have concluded they need to address tax leakage. The VAT accounting becomes the responsibility of the purchaser not the vendor.

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