

Accounting resource: VAT inspections.

“VAT inspections are often a cause of concern for businesses. With good record keeping and some preparation for the visit there’s no reason why it shouldn’t run smoothly.”

Alan Ross, Tax Director, Wilson Partners Ltd

In brief:

VAT Inspections are normally a routine matter. Typically a business will be visited within the first two or three years following registration and then at random intervals according to the business type, size and perceived complexity. Visits may also be triggered by a poor compliance history (late or missing returns and errors in returns) as well as unusual variations in the VAT payable or repayable.

“VAT is a complex area. Advice should be sought for unusual transactions where the VAT treatment may not be obvious.”

Alan Ross, Tax Director, Wilson Partners

VAT inspections

Minimising the frequency of visits:

Depending on the size of business, a visit may last from a few hours to several days. Although much of the time the VAT officer will work on their own with your information, they will still require input from you and as a result it is a disruption to your business which is best avoided if possible. The simple steps that you can take to minimise the frequency of VAT visits are:

- 1) Make sure that you submit your VAT returns and pay your VAT on time (which obviously also saves on interest and penalties).
- 2) If your VAT return is unusual compared to previous returns, for example because you normally have a VAT liability and this one shows a substantial repayment, contact your VAT office to explain the unusual return.
- 3) If you make an error of such a size that a voluntary disclosure is required, provide a detailed explanation as to how the error arose, how you know that it does not extend beyond the identified error, how it has been calculated and what steps have been taken to ensure that it will not happen again.

Before you are notified of a visit:

Penalties for errors will be mitigated (potentially to zero) where you advise HM Revenue & Customs voluntarily of an error. Therefore, if you become aware of any errors at a time before you are notified of a visit you should disclose them as soon as possible.

Clearly, advising them once you have been notified of a visit is likely to produce a smaller reduction in the penalty.

To provide comfort as to your VAT systems and controls, it is worth considering engaging a VAT specialist to conduct a VAT Healthcheck on your business. In this way, if there are errors you can make a voluntary disclosure without it looking like it has only been made because HM Revenue & Customs are about to visit.

Finally, if you do have an unusual transaction seek specialist advice to ensure the correct treatment and/or seek written confirmation from HM Revenue & Customs as to the treatment to be adopted.

The visit:

As indicated at the beginning, it is inevitable that you will have a visit at some stage and for most simple well-organised businesses making entirely standard rate supplies there should be few problems arising from the visit. Areas where problems do frequently arise include:

- a) The flat rate scheme (continuing to use the discounted rate, using the wrong rate, failing to calculate the flat rate VAT on the gross of standard rate supply, having other sources of income such as rent on which flat rate VAT hasn't been applied)
- b) Partial exemption problems (incorrectly recovering input VAT that relates to exempt supplies, incorrect partial exemption methods)
- c) Land and property transactions, in particular relating to the election to waive exemption

d) International transactions in goods and services (place of supply issues and evidence of export)

e) Non-business use of goods & services

f) Recovering VAT on blocked items such as staff entertaining and cars

To make the visit as swift as possible, you should ensure that your records are available and properly organised. Beyond your sales and purchase invoices, bank statements and accounting books and records, the officer will also want to see your VAT account which should be up to date including (for example) entries for bad debt write-offs.

When he completes his visit, the officer will discuss his findings with you and will normally follow this up with a letter to which you can then respond as appropriate.

Summary:

With good record keeping and an open approach there is no need to fear a VAT inspection. If you have any concerns as to the process that a visit may take or any other questions with respect to VAT please do not hesitate to contact us.

