

VAT

Should you be registered for VAT?



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HM Revenue & Customs seems to be going through a “crackdown on potential evaders” phase having recently targeted offshore bank accounts, medical professionals and plumbers. Now they have set their sights on what they call “VAT Cheats” i.e. anyone that should be registered for VAT but is not.

Over the next few weeks approximately 40,000 letters will be sent out to potential evaders offering them the opportunity to come clean. The names on the list are sourced from information held by HM Revenue & Customs which probably means tax returns. So anyone that has submitted a tax return (either self employed individuals or companies) declaring trading income in excess of the VAT registration threshold (currently £73,000) may receive one of these letters.

Incentive

HM Revenue & Customs is offering an incentive to encourage participation in this project in the form of reduced penalties. The penalty reduction depends on how long ago you should have VAT registered:

- Applications submitted within 12 months – no penalty (the normal penalty could be as high as 100% of the tax)
- Applications submitted more than 12 months late – 10% penalty based on the net VAT due for the period of lateness (the normal penalty would have been 15% if the application should have been submitted before 1st April 2010, or 100% if due after that date).

Special Procedures

With effect from 1 January 2011 the CGS will be extended so as to adjust input VAT recovery in relation to exempt, taxable, **and** non-business/private use.

Simplifications

To qualify for the reduced penalty a special procedure must be followed:

1. Notify HM Revenue & Customs that you want to participate in the disclosure initiative
 - Notification must be made between 5th July 2011 and 30th September 2011.
 - Notification can be made by:
 - Calling a special helpline on 0845-600 5217; or
 - Mailing a notification form – available on the HM Revenue & Customs website or from our VAT team (see contact details below).

HM Revenue & Customs will confirm receipt of the notification and allocate a Notification Reference Number (NRN) which must be used throughout the process.

Please note that the Notification Form is not the same as the VAT registration form.

2. Submit a VAT registration application (form VAT 1) before 31st December 2011.

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Note: Only paper applications are usable because you will need to quote your NRN on the face of the form and send the application to a special unit (contact our VAT team for details or consult the HM Revenue & Customs website).

Application Process

Although the VAT registration form is initially sent to a special unit it will, thereafter, be forwarded to the VAT registration unit and be processed in the normal way. All applications will then be subject to the normal checking processes which means that they will not be dealt with any quicker nor will it be any easier to get an application through if it is selected for extended verification.

Once VAT registered it is essential to submit the first VAT return on time and pay the net VAT due by the due date (or at the very least have negotiated and put in place a time to pay facility). If these conditions are not fulfilled the favourable penalty terms noted above will no longer apply.

The first VAT return will be for an extended period as it will include the whole of the period of lateness as well as the first normal VAT quarter so this condition is quite onerous.

Further Information

If you receive one of these letters from HM Revenue & Customs we urge you to get in touch with us (either your usual Shipleys contact or the VAT Team) before making contact with HM Revenue & Customs as there may be a good reason why you are not VAT registered.

Contact the VAT Team

T: 020 7312 6526
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Specific advice should be obtained before taking action, or refraining from taking action, on any of the subjects covered.

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