VITA
VAT & Indirect Tax Associates
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VAT-Able

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Your monthly newsletter from VITA

Helping you to be more Able to tackle VAT

After turning 50, what's next for VAT?

As we recognised 50 years since the introduction of VAT last month it leaves me wondering what is next for VAT, looking at what we know is happening and also look at what this could mean for businesses.

In the last few years we have witnessed the start of HMRC's plan to make VAT digital, with their vision to digitise the tax system by 2030. As VAT is fundamentally 'rules based' it actually lends itself extremely well to automation but the implementation of this is where the challenge lies.

The first step of this vision involved Maxing Tax Digital (MTD) VAT but the long term aim of the strategy is to introduce some sort of 'real-time' VAT reporting around 2030, now similar systems are already in place in countries like Spain where transactions are reported within 4 days. Indeed in Chile for example 93.7% of businesses submit pre-filled VAT returns using real-time information so there are similar infrastructures out there already achieving what HMRC aspires to. This would seem a long way off however, given the teething problems faced on the implementation of MTD do far, in what was a fair simple ask of transitioning VAT submissions to an online process.

There are benefits of a real-time based system would see a reduction in the scope for errors and improved accuracy in VAT reporting. It is also believed that it would allow HMRC to detect suspicious transactions early, and enable better use of digital prompts to eliminate potential errors in real time. Countries including Estonia, Chile and Hungary have all reported improvements in the 'VAT gap' since implementing a form of real-time reporting.

Whilst HMRC have set this strategy, it's clearly not a simple one for many businesses, with barriers including implementation time and costs. Many businesses need bespoke software to allow them to meet current digital reporting requirements, so will in turn need similar to allow for real-time reporting. This could take a years to implement based on what has been seen in other countries, so the sooner HMRC sets out its roadmap the better for businesses looking to make investment decisions for adhering to this.

Will we see this in the next 10 years? Personally I doubt it.

Exports - prove it!

on 31 March HMRC updated their guidance on evidence that will be accepted when exporting goods from the UK. The changes are not substantial, but it's a timely reminder of the importance of this topic.

The export of goods are typically zero-rated for VAT purposes. This is helpful, as no VAT need be charged whilst permitting full VAT recovery on associated costs. As it's exported, the buyer will likely be a non-UK entity and unable to reclaim UK VAT.

It's critical that businesses retains clear and accurate evidence that the goods have been exported. Without acceptable evidence, it's possible - and increasingly likely - that HMRC would assess for VAT based at 20% of the export value. As the international customers would not accept this 'charge', this could become a hard cost for the business.

HMRC requires official or commercial evidence to be retained, and this must clearly identify the supplier; the customer; an accurate and full description of the goods; an accurate and consistent value of the goods; the export destination; the mode of transport and route of the export movement. Some of this will be held within the accounting system, some will be through official HMRC declarations but all of it must be readily available to any visiting VAT officer to substantiate the zero-rating., and should form part of the records that must be kept for 6 years.

Should HMRC assess, it is possible to backfill the evidence/paperwork to achieve zero-rating belatedly. However, it would be much simply to ensure compliance and avoid the assessment in the first instance.

Follow Greg on LinkedIn for more regular updates

Mobile - 07387 564 090
Email - greg@vita-uk.com