

February 2023

Insulation or just a New Roof?

The Court of Appeal (COA) has released its decision on Greenspace(UK) Ltd, a business challenging an HMRC assessment on the VAT liability of installation services for insulated conservatory roof panels. Greenspace had charged VAT at the reduced rate of 5% on the basis that the the supply was one of insulation for roofs, and considered this should be categorised as installation of Energy Saving Materials. HMRC however assessed as liable to 20% VAT.

The COA found in favour of HMRC, making the key points:

- If the supply in question were of something more than, or different from, insulation of roofs, the reduced rate would not apply.
- It found that, while the panels installed by Greenspace did provide insulation for the conservatory on which they were installed, they also protected the conservatory from the outside elements. This was therefore considered to be a replacement roof rather than insulation of an existing roof.

Option to Tax - More Problems

As previously highlighted, HMRC have now changed their process for opting to tax. From 1 February, HMRC will no longer issue acknowledgment letters and the best you'll get is an automated bounce back response when sending an email. HMRC recommend these are kept with the business records.

Reports across the accountancy sector are suggesting that there are cases where these automated responses have not been received. HMRC have advised that if you email it again confirming you didn't get one, they will then manually confirm receipt.

We hope this system corrects itself, as we would highly recommend using the email notification process over the postal service. Also, we recommend to copy in a third party for another layer of evidence. For example, if a land deal has recently occurred or is in the pipeline, then copying in the acting solicitor would be sensible.

If you want peace of mind, we offer an option to tax service for a fixed fee of £150 per property where we will complete the online process, submit the email notification to HMRC (copying you in) and we also keep a copy of all documents in our client files giving you an additional backup. *[Price correct at February 2023].*

Annual Adjustments

Organisations that generate exempt and/or non-business activities are required to perform calculations to determine the value of recoverable VAT. Typical exempt activities include rental income, care/welfare services, financial/insurance services, amongst others. Non-business activities are those which are provided free of charge - perhaps funded by way of grants or donations.

There are two methodologies required. One is known as "partial exemption" and the other "business/non-business". It's possible that one or both may apply, but in either case an annual adjustment is required, and this would typically be for the VAT year ending March, April or May depending on the VAT return stagger. Any VAT recovered to this point is done so on a provisional basis, with the adjustment acting as a final 'true up'.

The good news is that the adjustments can either be made on on the final VAT return for the year, or as is more common, on the following return (June/July/August). However whichever is chosen, it is an important process and it would be worth diarising now. We'd be happy to offer guidance or support on this process and are willing to undertake a review and perform the calculations where appropriate.



Follow Greg on LinkedIn for more regular updates

Mobile - 07387 564 090

Email - greg@vita-uk.com

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