

Unlocking cashflow through proactive VAT management

Effectively managing cashflow has scarcely been more important to businesses across the UK than in the current COVID-19 pandemic.

However, many businesses still have not fully grasped the importance of effectively managing their tax affairs to optimise their cashflow position and take advantage of opportunities and beneficial reliefs available.

Cashflow improvements for VAT are achieved through:

- Delaying and reducing VAT due on sales, and
- Increasing and expediting VAT recovery on purchases.

It is also important to note that generally VAT can be reclaimed going back up to 4 years and therefore the values of lost VAT can often become significant.

By failing to proactively manage VAT, businesses across the UK of all sizes are losing out on money which is rightfully theirs.

We have set out below some key areas where business can optimise their VAT position.

1

Ensure you and your supplier charge the right rate of VAT

Many businesses, particularly those without an in-house VAT specialist, often automatically assume VAT is due at 20% on their sales, or that their supplier has correctly determined the VAT liability. This leads to businesses paying too much VAT or charging too much VAT.

Key areas where VAT is often charged at the incorrect rate:

- Building and construction works
- Property transactions
- Supplies to charities
- International trade
- Business disposals

2

Don't account for VAT too early

The VAT tax points rules determine when VAT is due to HMRC. Unfortunately, many businesses do not appreciate the subtleties of when a VAT tax point is triggered resulting in VAT being paid early e.g. on issue of requests for payment.

For corporate groups, a particular area where business do not optimise tax points is for continuous supplies of management services.

3**Take advantage of available VAT Schemes for Small Businesses**

The UK has various VAT accounting schemes designed to assist in particular smaller businesses to reduce the burden of VAT and which can have positive cash flow benefits such as the:

- VAT Cash Accounting Scheme
- VAT Flat Rate Scheme
- VAT Annual Account Scheme

e.g. Cash Accounting allows businesses to account for VAT when they have been paid by their customers and when they pay their suppliers rather than when invoices are issued. This is particularly beneficial for businesses which have to provide extended payment terms to their customers and do not have equivalent extended terms from their suppliers. An added benefit is that cash accounting provides automatic VAT relief for bad debts.

e.g. The Flat Rate Scheme is designed to simplify VAT accounting and allows businesses to apply a fixed flat rate percentage to their gross turnover to arrive at the VAT due. Depending on individual circumstances and the Flat Rate percentage for their business sector business may overall pay less VAT to HMRC than under normal VAT accounting.

4**Choose the right VAT return cycle and Stagger**

Businesses that are in a regular VAT repayment may benefit from accounting for VAT monthly and as a result receiving VAT repayments more frequently.

For corporate groups, realigning VAT staggers for non-VAT grouped companies ensures that VAT input Tax is recoverable from HMRC by the recipient company before VAT output tax is due from the supplier company on intra-group invoices can provide a positive cash boost.

5**Partial Exemption/ business non-business method**

Significant VAT savings can be realised by businesses having an appropriate partial exemption/ business non-business apportionment method in place to recover VAT on mixed use purchases, especially where the Partial Exemption Standard Method (based on turnover) does not accurately reflect the use of purchases in making taxable supplies.

6**Recovering VAT on motoring and staff expenses**

Many businesses do not fully recover the VAT they are entitled to on motoring and staff expenses, either through lack of knowledge of available options or incorrectly viewing cost as irrecoverable.

7**VAT grouping**

As VAT is not due on supplies between VAT group members, VAT grouping can improve cashflow by reducing administrative costs, VAT payments to HMRC and potentially reducing irrecoverable VAT.

8**VAT Input Tax accruals**

Many businesses, due to stretched accounts payable functions, may be recovering VAT late due to purchases invoice being processed late, and therefore falling into the next VAT return. Utilising a VAT input Tax accrual in certain circumstances can provide a cashflow boost by avoiding invoices unnecessarily falling into later returns.

9**Bad Debt Relief**

Subject to meeting certain conditions, businesses that have accounted for VAT to HMRC on their sales and which have not been paid by their customer can request a refund of the VAT paid directly from HMRC. Many businesses are not availing themselves of this essential relief or claiming it late and losing out on or unnecessarily delaying VAT refunds.

With the potential for greater bad debts as a result of COVID-19, utilising this relief may be more important than ever.

10**International VAT refunds**

Many businesses incur foreign VAT and are unaware of the fact that this VAT may be recoverable from the Tax Authority in the country where the foreign VAT was incurred. Businesses which have incurred overseas VAT and are not submitting refund requests are therefore missing out on VAT recovery.

How we can help

As experts in VAT optimisation, our team have saved our customers million of pounds in VAT and can assist in optimising your VAT position. Importantly, having worked at senior levels within HMRC, our team have a unique insight into HMRC's approach and are well placed to expedient claims.

As part of a global network, we can help unlock VAT savings wherever in the world your business operates.

Some of the things we can do for you include:

- Providing outsourced VAT compliance to ensure you do not miss out on VAT repayments or filing deadlines, including providing emergency cover if in-house staff are unable to perform these activities due to self-isolation.
- Carrying out a VAT savings review, whether on site (depending on government advice) or remotely to unlock cashflow.
- Providing advice on reclaiming VAT and end to end support with realising savings including submission of claims to HMRC.
- Carrying out detailed partial exemption reviews.

We appreciate these are difficult times and can offer a tailored fee basis including fixed fees and contingent fees to suit your needs.

Contact us

If you would like to contact us regarding VAT cost savings, please contact one of our specialists.



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