

VAT Common Pitfalls for Companies



VAT is incredibly complicated, and you should always seek advice about the VAT treatment of any transaction if you are unsure. Bear in mind that VAT is calculated on turnover, not profits, so it comes off the top line and any mistakes are potentially costly.



Generally, HMRC favours pro-active behaviour when it comes to rectifying errors - for example, HMRC can charge you a penalty of up to 100% of any tax under-stated or over-claimed if you send a return that contains a careless or deliberate inaccuracy so there is a real focus on behaviours and genuine errors will ordinarily be resolved.

Charging the correct VAT rate is the responsibility of the business raising the invoice, not the company paying the invoice. But if you pay VAT which was incorrectly charged then you may not be able to recover it from HMRC. So, if you suspect your supplier is charging the wrong rate of VAT- it's best to start a conversation and get the correct amount applied to invoices.

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If you have paid import VAT to bring goods into the UK, the only document which entitles you to reclaim the VAT is a form C79 issued by HMRC. You need to confirm with your shipping agent that they will provide the correct address for HMRC to send the form to. You cannot recover the import VAT from HMRC on the basis of an invoice from your shipping agent.

The list below highlights some of the most common problems that we find clients have with VAT, and also areas HMRC tend to check in VAT inspections:

- If you are VAT registered, you must issue valid VAT invoices which include all the required element- see Oury Clark Quick Guide "Contents of a VAT invoice"
- You can only recover VAT if you have a valid VAT invoice, as per above. You cannot recover VAT on the basis of a pro-forma invoice, or an order note or similar document.
- The VAT invoice must be addressed to the VAT registered company, or a member of staff if it was for business expenses subject to reimbursement. You cannot recover VAT on an invoice addressed to anyone else. You also cannot recover VAT on costs which are not part of your business expenses (e.g. Director's personal expenses).
- If you have paid import VAT to bring goods into the UK, the only document which entitles you to reclaim the VAT is a form C79 issued by HMRC. You need to confirm with your shipping agent that they will provide the correct address for

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Disclaimer: This note does not contain a full statement of the law and it does not constitute legal advice. Please contact us if you have any questions about the information set out above.

HMRC to send the form to. You cannot recover the VAT on the basis of an invoice from your shipping agent.

- If you buy goods or services from overseas then, even if you are not charged UK VAT there may be a requirement to account for VAT on a reverse charge basis. It is important you check the correct VAT treatment on such expenses even when no VAT appears on the invoice.
- If you invoice in a foreign currency, you must show GBP values for the VAT and Net value on the invoice too. You must use an approved rate of exchange.
- If you sell fixed assets on which you recovered the VAT when they were bought, then you may have to charge VAT on their sale. You may also need to account for VAT if you give assets to staff for their personal use or take assets out of the business for your own use.
- You cannot recover VAT on entertaining costs except for entertaining your own staff.
- If you pay for petrol costs as part of your employees' benefit package you need to make VAT scale rate adjustments each quarter to reflect non-business use of the petrol.
- You cannot recover VAT on the cost of buying a car, except in exceptional circumstances.
- If you provide gifts or prizes to your customers, staff or other people this may have a VAT impact and you should contact us for further advice.
- If a customer does not pay you for over six months and you want to account for this as a bad debt, you can claim back the output VAT you have paid over to HMRC. Conversely, if you do not pay a supplier for more than 6 months and you have not agreed extended credit terms with them you should pay back any VAT you have reclaimed on the invoice in question.
- If you think you have overpaid VAT please get in touch. Subject to conditions, you are entitled to recover overpaid input VAT up to 4 years prior.