



Covid-19 & VAT

14 April 2020

VAT is a tax that works in real time and is often payable when a good or service is provided, cash is received, or an invoice is raised.

Due to the current economic climate created by the COVID-19 pandemic, there is unlikely to be many businesses in the UK that are not suffering some form of economic hardship, whether that be in continuing to trade as normal, unpaid invoices, or general cash-flow problems.

We have set out below a summary of items that businesses may want to consider with regards to mitigating VAT issues:

VAT payment deferrals

As has been widely reported, VAT payments can be deferred until 30 June 2020, the following link will take you to our latest communication regarding this (<https://www.lubbockfine.co.uk/covid-19>)

It is important to remember that VAT returns must be submitted on time even if the payment is to be deferred.

Also, where VAT payments are made by direct debit, you should stop the direct debit, or ask your bank to reject the direct debit.

VAT repayments

It is worth noting that VAT repayments will be paid out by HMRC as normal, if your VAT return has more VAT to claim than pay.



This will still be the case if you have a VAT repayment return, after the deferral period. So if you deferred your VAT prior to 30 June 2020, and will not pay the VAT until 31 March 2021, and then have a VAT repayment return in September 2020, the VAT amount deferred is not offset against your VAT repayment, it is still repayable to you.

Consider issuing requests for payment instead of VAT invoices

Where businesses provide a continuous supply of services to their clients, for example letting property to a tenant, the services of lawyers, accountants etc. who provide a constant stream of services to their clients. If these businesses start issuing proforma invoices or requests for payment, rather than a VAT invoice, no tax point is created at this time.

Businesses will need to account for VAT when a tax point is created, this being when payment is received, which could help with cash flow. There are some anti-avoidance rules around this, so it is important to ensure your business is not caught by these and advice is obtained, before implementing.

Monthly VAT returns

If a business now finds itself in a VAT repayment situation, because VAT on costs is higher than VAT on sales, it may wish to consider moving on to monthly VAT returns, as this will speed up VAT repayments from HMRC.

This could be the case where business sales are temporarily low, but VAT is still due to be paid on costs and invoices being received, for example, office rent and other overheads.

Applying for monthly VAT return filings can be requested online, however this does of course increase the compliance burden in that returns needs to be filed monthly, instead of quarterly, although this may still be worthwhile and worth considering.

Making sure all VAT is claimed and as early as possible

Businesses recover VAT on invoices that have been processed up to the end of the VAT accounting period. This often means Voluntary Disclosures need to be submitted to HMRC, in order to recover VAT on invoices processed after the VAT return period.

An exercise should be undertaken where any invoices received that may have not been processed, but fall within a VAT return not yet submitted, are manually added into that VAT return. This will also decrease the admin burden of preparing and submitting a Voluntary Disclosure and attracting unneeded attention from HMRC.

You should however ensure that manual adjustments are made when calculating the next VAT returns; so the VAT claimed in the previous quarter is not recovered again.

Also, make sure any EU VAT refunds are submitted and claimed where applicable, and VAT recovery in all areas is maximised, for example employee expenses etc.

Bad Debt Relief

If a business has issued an invoice that has not been paid by their customer, within six months of the tax point date, or due date of the invoice (whichever is later), they can make a claim for the VAT accounted for (assuming they are not cash accounting) in a current VAT return, as long as all of the relevant conditions are met.

Cancel your VAT registration

This is a consideration for businesses that believe that they will now have VATable turnover on an ongoing basis under the VAT deregistration threshold.

There are some things to consider here, and this decision would require some thought, key points to note:



- VAT may be required to be accounted for on stocks and assets on hand at deregistration.
- Any properties owned by the business that are Opted to Tax, may require some previously claimed VAT to be repayable.
- Capital Goods Scheme adjustment requirements (if applicable) will need to be considered. This can again result in VAT being repayable to HMRC.
- Also, HMRC may reject the application unless it can be shown there is to be a genuine long term decrease in VATable turnover, and the reduced turnover is not a result of suspending trade to stay below the threshold, or something else temporary, such as COVID-19.

Payments on account (POA)

A POA trader is one that makes monthly payments to HMRC because their estimated annual VAT liability is in excess of £2.3 million.

Businesses making POA may wish to consider whether there is any opportunity to reduce the level of the payments. Businesses that consider that their total VAT liability has decreased by at least 20% can write to HMRC to request that the POA amount is reduced.

Businesses submitting a POA could also make a decision to change onto monthly VAT accounting to pay the actual VAT liability for the previous month, if this would be more beneficial from a cash flow perspective.

Tour operators margin scheme

The travel industry has been impacted significantly by COVID-19, if you are a business in this sector and account for VAT via this margin scheme, you may want to consider the method you use to recognise a tax point. Switching the method to a tax point being due i.e. when VAT is payable, to the customers date of departure could be hugely beneficial.

How we can help

If you would like to discuss any of these matters further, please contact your usual Lubbock Fine contact, or Jas Dhillon, our VAT specialist, jaspaldhillon@lubbockfine.co.uk

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