

Recent HMRC Developments in VAT Control and Compliance



In recent times, it has become increasingly clear that the way in which the government department which has been responsible for VAT for seven years, HM Revenue and Customs (“HMRC”), has changed the way in which it deals with VAT compliance and other VAT matters markedly.

Much of the VAT work done for clients of Old Mill relates to situations involving dealings with HMRC, either initiated by HMRC or in some cases by the taxpayer.

We thought it would be of interest to outline some of the ways in which HMRC conduct their VAT checks and enquiries; what to expect and how this could impact your VAT position/business. It is certainly worthwhile being forewarned and forearmed.

General Approach

HMRC now have “Connect”, a sophisticated system used to gather information and target their enquiries. This uses a range of third party data sources including banks, insurers, land registry etc. as well as the internet and social media.

HMRC use various other sources of information and there is increasing evidence of improved co-ordination and information sharing between different sections within HMRC. A case we are aware of involved an initial PAYE inspection which identified a number of individuals working for more than one business, and subsequently HMRC launched a VAT enquiry into whether the businesses should have been treated as the same business for VAT purposes.

HMRC look at the Charities Commission website to identify charities that might have exceeded the VAT registration

threshold but have not notified their requirement to register. Online sales platform providers are also required to provide HMRC with details of sales, etc., as are payment platforms.

VAT Enquiries and Inspections

These might be prompted by an anomaly in accounting or VAT figures on a particular VAT return, typically where output tax decreases or a large input tax (VAT) claim is made. There may also be a particular reason – for example last year HMRC focused on VAT claims made by businesses operating the Flat Rate Scheme for Small Businesses by checking VAT claims on returns over the past four years (under the FRS, recovery of VAT is very limited).

HMRC used to visit a lot of businesses but in the days of scarcer resources and electronic accounting, it is becoming far rarer to meet a VAT inspector face to face.

Recent approaches from HMRC to VAT registered businesses include requests for electronically sent information. HMRC will now ask for accounting package back up which allows analyses to be made of all accounting information for a business and not just the VAT.

It is not possible to send HMRC only the VAT related information. HMRC have recently stated that offering copies of all VAT reports and VAT analysed invoice listings is not satisfactory – even in terms of what is a “routine” compliance inspection.

The VAT visit will often now take the form of a phone conversation instead. This can make the experience less comfortable for the taxpayer in some ways. It is not only more difficult to build rapport, there is no eye contact, unseen facial expressions and an inability to show the officer information apart from on-screen.

A number of clients have been asked quite tricky questions verbally – in such situations, we advise asking the VAT officer concerned to put their request in writing. This provides an opportunity to understand (or seek advice on) exactly what HMRC are asking and how to provide the response, even whether a response is needed. HMRC are not always correct in their decisions and so we strongly recommend seeking specialist VAT input before providing any response.

We have also experienced HMRC approaching a business for a dual tax audit, involving VAT and another tax (PAYE/corporate tax). They are required to notify the taxpayer if this is the case, but in our experience, this has not always happened. It is always worth checking exactly who is visiting and their contact details – a letter should be sent by HMRC prior to the check to confirm matters.

VAT Registration

HMRC will reject or question VAT registration applications which have incomplete forms or information. In one case, a new business applied for VAT registration and did not provide their bank account details on the VAT 1 registration

application form- because the account had not yet been set up. Several weeks later, a letter was sent to them by HMRC's VAT Fraud Team who wanted numerous pieces of information before they accepted that this was a genuine business. This delayed them obtaining a VAT number. We were asked to get involved and although HMRC soon recognized this was a genuine application, matters still had to be dealt with in a particular way, as there were "procedures to be followed", involving three different VAT contacts. We would strongly advise having an application checked over by a VAT specialist before submitting it, as having such delays in registering for VAT can create real problems when needing the registration to claim VAT, charge VAT or prove registration status to customers or suppliers (particularly when engaging in international trade).

Our VAT specialist Marianne Hawskworth has been a VAT inspector, dealing with VAT control and VAT registration, and has advised numerous businesses and other clients on VAT dealings with HMRC, including approach, response, and mitigation of VAT assessments and financial penalties for over twenty years. If you need any assistance in your dealings with HMRC, please do call us.



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