



# VAT BREAKFAST HEADLINES

## VAT Errors - are you protected?

With the penalty regime for VAT errors assessed on a taxpayer's performance it is important to remind ourselves of the consequences of any error.

The first point to remember is that HMRC consider "errors" to mean "net errors". As an example, if you under-declare output tax by, say, £7,000 but you also have under-claimed input tax of, say, £3,000 the net error which you have to consider is £4,000.

If an error is discovered and;

- The net value of errors found on previous VAT returns does not exceed £10,000, or,
- The net value of errors is between £10,000 and £50,000 but does not exceed 1% of the Box 6 (net output) figure due for the return in which the errors are discovered,

you can adjust the net errors on your current VAT Return.

If the error breaches the above criteria you must notify HMRC.

If you discover an error on a VAT return that has already been submitted and do nothing and in the meantime HMRC contact you to arrange a VAT inspection before the current return is due, you may consider disclosing the error to the VAT Inspector. However, the VAT Inspector may decide that notification of the VAT inspection was the catalyst for the disclosure and treat the disclosure as a **"prompted"** disclosure and apply interest and penalties.

Our recommendation is that as soon as you discover an error in a previous VAT return you should ensure that a formal record is kept showing:

- The date you discovered the error and the VAT period it relates to.
- Whether the error relates to output tax or input tax.

Not only would this record assist you in deciding whether the error should be adjusted on the VAT return or disclosed to HMRC, but also, if you do receive a call from HMRC to arrange a VAT inspection, could be furnished as evidence that you were not prompted to disclose the error.

The easiest way to prevent HMRC applying penalties and interest is to avoid errors altogether. Of course this is easy to say, we are not all perfect and we do make mistakes. HMRC can apply a penalty to any error if it is considered that the taxpayer has been **"careless"**. To avoid HMRC considering that any error was "careless", taxpayers should be able to establish that they have taken the reasonable care and attention that would be expected from a reasonable person taking reasonable care in similar circumstances. We, therefore, have some practical tips to avoid problems. The taxpayer should seek advice as early as possible especially where an unusual or complex transaction is to take place or there is doubt concerning a particular compliance issue. It is sometimes convenient to delegate responsibility for VAT to your bookkeeper. However, you should be aware of the VAT issues relating to your business and if in any doubt consult your advisers. If you take on new accounts staff ask them to review your historical accounting procedures, since a fresh pair of eyes could highlight some weaknesses in the system. Document the key control points within the system to demonstrate all efforts are being made to ensure no errors are made.

The practical tips in this article are not guaranteed to make you immune to penalties and interest, but using them may help in providing evidence to HMRC that you are taking reasonable care over your VAT affairs in the event of any dispute.

*The Rawlinson & Hunter VAT consultancy advises on domestic and international transactions. We regard VAT as a key tax for many of our clients, which is why our service in this area is led by a highly experienced and senior member of the tax team with a proven track record of negotiation success on a range of VAT matters. Our aim is to provide commercially realistic advice and practical solutions to your VAT problems. We believe that VAT should be an important part of the wider tax planning for most businesses.*

*Our VAT Director, Nigel Medhurst, would be pleased to discuss your business and provide a view on your VAT efficiency. You can contact Nigel direct on 020 7842 2150 or email [nigel.medhurst@rawlinson-hunter.com](mailto:nigel.medhurst@rawlinson-hunter.com) for an initial consultation to assess whether there is a need to consider your VAT affairs in more detail.*

**Experience has shown that by considering VAT early on, businesses can keep one step ahead which can pay considerable dividends later on.**

The information contained in this bulletin does not constitute advice and is intended solely to provide the reader with an outline of the provisions. It is not a substitute for specialist advice in respect of individual situations.

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