



HMRC launches VAT 'Amnesty'

HMRC's latest tax disclosure campaign is primarily aimed at businesses that have failed to register for VAT. This is a great opportunity for small businesses to put right tax irregularities without incurring large penalties.

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HMRC'S 'VAT INITIATIVE CAMPAIGN'

Rumours of a VAT registration amnesty have been around since May 2011, when HMRC issued a press release forewarning of a crackdown on non-compliant businesses. HMRC has launched a 'VAT Initiative Campaign' that follows a similar template other recent disclosure campaigns and is designed to encourage taxpayers to own up to unpaid tax liabilities before the full crackdown comes into force.

The amnesty registration period runs from 5 July to 30 September 2011 and is principally aimed at businesses which have not registered for VAT, despite their taxable turnover exceeding the VAT registration threshold (currently £73,000). However, the initiative can be used to disclose other tax arrears (see below).

WHAT ARE THE BENEFITS?

Businesses who are late registering for VAT are normally penalised at rates ranging from 15% - 100% of the net amount of VAT payable in the period between the date they should have registered and the date they eventually owned up to HMRC.

HMRC promises reduced penalties for those who use the VAT Initiative Campaign to make voluntary declarations. The penalty rate is expected to be 10% in most cases, but HMRC says it may apply a nil penalty if the liability to register for VAT has been outstanding for 12 months or less.

Entitlement to these reduced penalties is unclear – HMRC says those that knew they should be VAT registered but failed to come forward will receive higher penalties. In this age of online tax information and self assessment tax returns, it may be difficult for businesses to prove that they had not realised they had crossed the VAT threshold.

HMRC will also consider allowing extra time to pay outstanding liabilities disclosed under this campaign – this is normally only offered on a case by case basis.

HOW WILL IT WORK?

In order to participate, business owners must take both of the following steps:

- Tell HMRC by 30 September that they want to take part by submitting a notification form. HMRC will give a reference number to acknowledge receipt of the form.
- Submit a VAT registration application form (VAT 1) to HMRC by 31 December. Business owners must submit a hard copy VAT 1 form to HMRC's VAT Initiative Team, quoting their reference number (i.e. not use the usual VAT registration routes).

There is no need to pay the tax arrears to HMRC until the registration process is complete. At that stage, HMRC will issue a VAT return to cover the period from the day that registration should have occurred to a current date. Business owners then need to calculate

the VAT they owe and disclose it to HMRC by completion of this VAT return.

WHAT ELSE DOES THE CAMPAIGN COVER?

In addition to those who are late registering for VAT, the campaign also offers disclosure opportunities to businesses that will very shortly become liable to register for VAT and want HMRC's help with the process. This is presumably aimed at those who find the application procedure daunting and/or might otherwise be tempted not to register.

The notification form can also be used:

- for VAT registered businesses to disclose errors on their VAT returns
- to indicate that the business may have liabilities in other taxes (HMRC will follow this up separately).

So far, HMRC has not given details of the penalty rates that will apply for these types of arrears. However, if you are approached about such a disclosure, investigations experts at PKF can help you assess the likely costs and identify the most cost-effective disclosure routes for your client.

TURNING DOWN THE AMNESTY

After 30 September, HMRC says it will carry out a review of self assessment tax returns and other information to identify businesses that it suspects should be VAT registered. Initially, it has written to 40,000 business owners who have declared turnover in excess of the VAT registration threshold for income

tax purposes without registering for VAT. Those who regularly declare turnover just below the threshold are likely to be approached in the future.

Any business owner who receives a letter about the amnesty from HMRC but does not apply for the amnesty will be investigated and, in many cases, is likely to be forced to register and suffer tax penalties at up to 100% of the tax due.

EXPERT HELP FOR YOUR CLIENTS

From our experience of handling tax investigations and enquiries over many years, we know resolving tax disputes for clients requires a robust approach to protecting a client's interests backed up by a detailed consideration of strategies and tactics. An in-depth knowledge of the relevant legislation and the rights and powers of both the taxpayer and HMRC is vital. The skills and experience to negotiate a settlement are paramount.

Our specialist teams can assess your client's situation and ensure that any disclosure is carried out within appropriate parameters and that HMRC will accept it without further enquiry wherever possible. Where there is a need to negotiate directly with HMRC, we employ thorough forensic analysis techniques to ensure that the right amount of tax, if any, is paid in settlement of the case.

We are not looking to provide general accountancy or audit services to your clients, but to act as impartial, specialist consultants with your client's best interests as our priority.

For more information on how we can help, please contact:

www.pkf.co.uk/vatteam

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