

Reminders and updates on VAT



VAT

Change to business activity test

There's been a change in the way HMRC works out if an activity is a business activity for VAT purposes. It will affect not only charities and non-profit organisations but also businesses providing nursery and crèche facilities, receiving grants or subsidies, or carrying out non-business activities.

HMRC will now apply a two-stage test to determine what is a business (or economic) activity. Stage one will focus on whether the activity results in a supply of goods or services for consideration. If there is no consideration, it is not a business activity for VAT purposes.

Stage two looks at whether the supply is made for the purpose of obtaining income therefrom (remuneration) and whether there is a direct or sufficient "link" between the supplies made and the payments given.

For activities deemed to be business activities for VAT purposes there is a requirement or an opportunity for organisations to register for VAT, a liability to account for VAT and an entitlement to recover VAT incurred on qualifying expenditure. More on the gov.uk website at: <https://tinyurl.com/mscef7br>

New system from 1 January 2023

A changed VAT penalty and interest regime for returns beginning on or after 1 January 2023 will be more expensive for some businesses. The headline penalties for a late VAT return – £200 plus another £200 for every subsequent late submission – make the changes appear to be less costly.

However, late payment interest (LPI) starts on the first day after the due date at the Bank of England base rate plus 2.5%. Rising interest rates will therefore make this quite a significant charge. Furthermore, late payment penalties (LPP) will be imposed, starting at a rate of 2% from day 16 after the due date, with an additional 2% on the amount outstanding on day 30.

So, get returns in on time, even if full payment cannot be made. Pay as much as you can as soon as you can to reduce LPP and LPI. More at Shipleys' website: <https://tinyurl.com/2aubjkd5>

And finally...

In his 17 November statement, the Chancellor confirmed the VAT registration and deregistration thresholds will stay at their current levels of £85,000 and £83,000 respectively until at least March 2026.