CHAPTER 12

VAT RECORDS AND RETURNS

12.1 Introduction

Because VAT is collected at every level along a chain of a supply, it is important that records should exist of all transactions made and received by a business.

The importance of records is paramount when the business wants to claim a refund of input tax because they will need to be able to prove that the tax they are reclaiming was, in the first place, paid by the business. The best proof of this is the records that the business keeps.

12.2 Records

From the 1st of April 2009 a common framework of record keeping has been introduced for most direct taxes and VAT. For example, under the new rules '**information' is required to be kept rather than 'records'**. The detailed rules for each tax, however, remain unchanged. For VAT these general requirements are set out in the VAT Regulations 1995 in Regulation 31. Each taxable person has an obligation to keep and to preserve; FA2008 Sch 37 VATA 1994, Sch 11 Para 6(1)

- his business **accounting records**;
- copies of all **VAT invoices** which have been **issued** by the business;
- all **VAT invoices** which have been **received** by the business;
- **documentation** relating to all **imports and exports**, and documentation relating to all **EC acquisitions** of goods and **dispatches** of goods; SI 1995/2518 Reg 31
- **credit notes, debit notes** and similar documents which evidence changes in the consideration for supplies made or received; and
- a **VAT account**.

Business records must be kept for a **minimum of 6 years** unless an agreement is reached with HMRC for a shorter retention period. VATA 1994, Sch 11 Para 6(3)

It is possible for a trader, instead of keeping original paper records to keep records on computer. However the trader must get approval of the system he is going to use from HMRC. Approval will not be needed if the records are going to be produced by computer but then stored on paper. Notice 700 Para 19.2

12.3 The VAT Account

The VAT account must be divided into separate parts for the different prescribed accounting periods for which the business makes VAT returns. Then each part must be sub-divided into a VAT payable portion and a VAT allowable portion. SI 1995/2518 Reg 32

In the VAT payable portion, for each VAT return period, it should show:

- The output tax due on all the sales made in that period;
- Any earlier output tax errors that have been discovered during this period where adjustment is allowed in the current period;
- Any increases or decreases in output tax which have arisen during the period from changes in the consideration for supplies (eg, a price adjustment or some sort of dispute that has resulted in a change in output tax); and
- any other adjustments to output tax which are required under the VAT legislation.

In the VAT allowable portion for each return period, it should show:

- The input tax allowable for the period on all supplies made to the business in the VAT period;
- If any earlier input tax errors were discovered during the period, then any adjustments being made in the current period must also be shown;
- Any increases or decreases in input tax arising during the period from changes in the consideration for supplies received; and
- any other adjustments to input tax which are required under the VAT legislation.

Examples of adjustments required or allowed under the VAT legislation include a partial exemption annual adjustment, a capital goods scheme adjustment or a bad debt relief claim. Such adjustments could be seen in both the VAT payable and the VAT allowable portion of the VAT account.

12.4 Special Record Keeping Requirements

Apart from the records needed by all traders, if a trader operates a special scheme then he is usually subject to additional record keeping requirements. These requirements will be specified by HMRC usually in notices which have the force of law for this purpose.

Special record keeping requirements arise for retail schemes, bad debt relief claims and for traders using the cash accounting scheme.

12.5 VAT Invoices

The VAT invoice is probably the most important document for VAT purposes. In order to be a valid VAT invoice it must show all of the following information as listed in SI 1995/2518 reg 14: SI 1995/2518 Reg 14

- A sequential identifying **invoice number**;
- The **date** of the supply;
- The date when this VAT invoice is being issued;
- The **supplier's name and address** and the supplier's VAT **registration number**;
- The name and address of the person to whom the goods or services are supplied;
- The unit price as it applies to countable goods or services. For services the countable element might be, for example, an hourly rate or a price for standard services.

  If the supply cannot be broken down into countable elements, then the total tax exclusive price will be the unit price.
- A **description** sufficient to identify the goods or services being supplied;
- The **quantity** of goods or the extent of services supplied, the **rate of VAT** applicable and the **amount** that is being **charged,** which is net of VAT;
- The **total amount being charged**, net of VAT;
- The **rate of any discount** offered;
- The total amount of tax chargeable;
- The unit price;
- Reference to margin scheme if appropriate.

Where a VAT invoice is required, the trader has an obligation to issue the tax invoice within 30 days after the tax point.

Invoices do not have to be issued for zero rate and exempt transactions. If such supplies are included on invoices with taxable supplies, those items must show clearly that there is no VAT payable and their values must be totalled separately.

12.6 Less Detailed VAT Invoices

HMRC allow the issue of a less detailed invoice in certain circumstances. Two conditions must be satisfied for a less detailed invoice to be allowable;

SI 1995/2518 Reg 16

1) the supplier must be a retailer, so must be selling directly to the public; and
2) the value of the **supply (including VAT)** must be **less than £250.**

If both conditions are satisfied a less detailed invoice can be issued which will comprise of the following:

- The name, address and VAT registration number of the supplier;
- The date of the supply;
- A description sufficient to identify the goods or the services supplied;
- The total payable which is including VAT; and
- The rate of tax applicable.

12.7 Electronic Invoices

The Invoicing Directive allows for electronic invoicing using an advanced electronic signature, or Electronic Data Interchange (EDI).

SI 1995/2518 Reg 13A

Electronic signatures are linked to the data to which they relate in such a way as to allow someone receiving the data over an electronic network to determine the authenticity of the origin of the data, and to check that the data has not been altered or corrupted during transmission.

A trader will have to notify HMRC within 30 days from the date that he starts to invoice electronically.

It will be for businesses to decide whether to invoice by traditional paper methods or electronically. Indeed some businesses may use both methods for separate supplies/suppliers.

The retention period for invoices remains at 6 years unless HMRC agree a shorter retention period.

12.8 VAT returns

A taxable person must furnish a VAT return, (form **VAT 100)** in respect of each prescribed accounting period.

A prescribed accounting period is usually a three-month period although traders can request to have monthly prescribed accounting periods.

SI 1995/2518 Reg 25

Prescribed accounting periods are staggered for administrative convenience and can be the quarters ended 31 March, 30 June, 30 September, and 31 December for stagger group 1; 30 April, 31 July, 31 October and 31 January for stagger group 2; and 31 May, 31 August, 30 November and the end of February for stagger group 3.

For each of those three stagger groups, the **VAT year end** will end on either the **31 March, 30 April or the 31 May** as appropriate. Notice 700 para 20.5

The stagger groups are allocated to traders when they register for VAT. Traders can request certain accounting dates for their convenience (for example to coincide with their financial year end) but the allocation is entirely at HMRC discretion.

The VAT return deals with all UK transactions that fall within VAT, and also will include entries for intra-EU trade as well as tax on imported goods which have to be dealt with on the VAT return.

A copy of the VAT return can be found at Schedule 1 of SI 1995/2518.

The VAT return is completed as follows:

Box 1 shows the **output tax** due on supplies and deemed supplies made by the taxable person.

Box 2 shows the **VAT due** on acquisitions from other EU countries.

Box 3 shows the total of **Boxes 1 and 2, i.e.** the total VAT due on sales and on EU acquisitions.

Box 4 shows the **input tax** available for credit on all purchases. So that will include imports and EU acquisitions.

Box 5 is effectively the **net figure**, so Box 3 minus Box 4 and thus will show the VAT payable to or by the Commissioners.

Box 6 shows the **total value of sales and all other outputs** (but this excludes VAT) made during the period and will include the amount shown in Box 8.

Box 7 shows the **total value of purchases and all other inputs**, again excluding VAT, received during the period and this includes the amount shown in Box 9.

Box 8 shows the **total value of all supplies** of goods and related services excluding VAT **to other EU member states**.

Box 9 shows the **value of all acquisitions** of goods and related services, excluding any VAT, **from all other EU member states**.

Most traders who do not have any transactions with other EU countries will only be entering figures in Boxes 1, 3, 4, 5, 6 and 7.

The VAT return has to be **signed by a relevant person** and submitted with a cheque for payment of any VAT due **within one month** of the end of the prescribed accounting period for which the return is made. SI 1995/2518 Reg. 25(1)

For a business which makes use of electronic means of payment, both the due date for the return and the date by which HMRC must receive the payment (into their bank account) are extended by 7 days. If the extended date is a weekend, or on a bank holiday, then the due date will be the closest working date immediately prior to the 7th day.

If the return is a repayment return, the 7-day extension on the submission of the return does not apply, and the ordinary submission date applies.

Businesses in the payments on account scheme and on annual accounting schemes are excluded from the 7 day extension.

From 1st April 2010 paper returns are to be phased out. From that date all newly registered traders and all traders with an annual turnover of over £100,000 are required to file returns online and make payments electronically.

Example 1

JJ Limited has an accounting year-end of 31 January 2011. The company is in VAT stagger group 2.

VAT returns are made to which quarters?

Answer 1

The quarterly VAT returns a trader would have to make are as follows;

30 April 2010;
31 July 2010;
31 October 2010; and
31 January 2011.