

Finance Leaders Update

Imperial War Museum Duxford

Thursday 14th November 2019



Tax Update

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Agenda

- Employment Status / IR35 and changes
- Tax efficient employee benefits



Employment Status

- Status: Employed or Self employed or worker?
- Gig Economy
- Deliveroo, Uber, Hermes, Amazon...
- Pimlico Plumbers (not a tax case!)
- Workers rights – NMW, Holiday...
- A worker can be self employed or employed
- Depends on fact (status tests)



Employment Status

- Control over work
- Right of substitution
- Use of equipment/provision of tools
- Financial risk
- Length of engagement
- Opportunity to profit
- Part and parcel
- Quality over quantity/ matter of fact
- Contracts (picture painting)



Employment Status

- Personal services provided
- Personally ('SE') or through a company ('CO')
- IR35 - 2000
- Liability to check status and deduct PAYE/NIC's
 - SE = Engager – Regulation 80
 - CO = Engaged Company – IR35



Employment Status

- From 05 April 2020 – Medium sized engagers
- SE = Engager – Regulation 80
- CO = Engager Company – IR35
- Turnover does not exceed £10.2 million
- Balance sheet total does not exceed £5.1 million
- Not more than 50 employees.
- 2 out of 3 (TBC) above
- Exempted from applying tests
- 95% of engagers will not be required to comply



Update - Cars

CO2 g/km	2014/15 BIK%		2015/16 BIK%		2016/17 BIK%		2017/18 BIK%		2018/19 BIK%		2019/20 BIK%	
	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel	petrol	diesel
0 (EV)	0	0	5	5	7	10	9	12	13	16	16	19
1-50	5	8	5	8	7	10	9	12	13	16	16	19
51-75	5	8	9	12	11	14	13	16	16	19	19	22
76-94	11	14	13	16	15	18	17	20	19	22	22	25
95-99	12	15	14	17	16	19	18	21	20	23	23	26
100-104	13	16	15	18	17	20	19	22	21	24	24	27
105-109	14	17	16	19	18	21	20	23	22	25	25	28
110-114	15	18	17	20	19	22	21	24	23	26	26	29
115-119	16	19	18	21	20	23	22	25	24	27	27	30
120-124	17	20	19	22	21	24	23	26	25	28	28	31
125-129	18	21	20	23	22	25	24	27	26	29	29	32
130-134	19	22	21	24	23	26	25	28	27	30	30	33
135-139	20	23	22	25	24	27	26	29	28	31	31	34
140-144	21	24	23	26	25	28	27	30	29	32	32	35
145-149	22	25	24	27	26	29	28	31	30	33	33	36
150-154	23	26	25	28	27	30	29	32	31	34	34	37
155-159	24	27	26	29	28	31	30	33	32	35	35	37
160-164	25	28	27	30	29	32	31	34	33	36	36	37
165-169	26	29	28	31	30	33	32	35	34	37	37	37
170-174	27	30	29	32	31	34	33	36	35	37	37	37
175-179	28	31	30	33	32	35	34	37	36	37	37	37
180-184	29	32	31	34	33	36	35	37	37	37	37	37
185-189	30	33	32	35	34	37	36	37	37	37	37	37
190-194	31	34	33	36	35	37	37	37	37	37	37	37
195-199	32	35	34	37	36	37	37	37	37	37	37	37
200-204	33	35	35	37	37	37	37	37	37	37	37	37
205-209	34	35	36	37	37	37	37	37	37	37	37	37
210-214	35	35	37	37	37	37	37	37	37	37	37	37
215-219	35	35	37	37	37	37	37	37	37	37	37	37
220+	35	35	37	37	37	37	37	37	37	37	37	37



Update - Cars

- From 06/04/2019 155 p/km = 37% BIK
- Tax paid on 111% of the list price over 3 years!
- Plan now to ensure you don't fall into a higher bracket!
- Diesel to be phased out by 2040
- What about hybrid or electric cars?



Update - Cars

- Ultra Low Emission Vehicle – (ULEV)
- Fit for purpose – September 2017
- 122,000 Plug in cars
- 4,200 Plug in vans
- 59 Models available
- 13,900 Charge points
- New tax bands introduced from 2020 – range dependent



Update - Cars

CO2 emissions (g/km)	Electric range (miles)	Tax rate (%)
0		2
1-50	> 130	2
1-50	70-129	5
1-50	40-69	8
1-50	30-39	12
1-50	<30	14



Update - Cars

- Nissan Leaf – List price £30,935
- Range 235 miles
- BIK – 2019/20 = 16%
- BIK – 2020/21 = 2%
- 2020/21 - 40% = £247 per year



Update - Cars

- Capital allowances at 100% (< 50g P/km)
- Fuel cost is significantly cheaper
- Free employer fuel!
- Low road tax
- No congestion charges (75g p/km)
- Area of significant investment/growth



Update - Cars

Provision	Company car made available for private use	Employee's car used for business
Employer allows cars to be recharged from a vehicle charging point at work.	No taxable benefit - electricity does not sit within the meaning of fuel so the Fuel Benefit Charge does not apply.	Taxable benefit based on cost to the employer.
Employer pays for a vehicle charging point to be installed at the employee's home.	No taxable benefit	Taxable benefit based on cost to the employer.
Employer pays for charge card of £100 per year to allow individuals unlimited access to local authority vehicle charging point.	No taxable benefit	Taxable benefit based on cost to the employer.



Other Tax free benefits

- Mobile telephones – Incidental private use – Watch reimbursements
- Canteen Exemption – Employer provided meals
- Trivial benefits - £50 per employee (£300 for directors)
- Employer work place parking
- Annual events < £150 per head
- Cycle to work scheme
- Relocation costs - £8,000
- Use your own bicycle for work – 20p per business mile
- Welfare counselling
- Suggestion schemes



Share schemes

- Enterprise management incentives ('EMI') - Golden handcuffs
- Company conditions
 - Gross assets must not exceed £30 million.
 - Trading companies
 - Parent only
 - Less than 250 employees
- Employee conditions
 - Employee (can be a director)
 - 25hrs per week or 75% of working time
 - 30% connection test
- Discretionary
- 10 years lapse



Share schemes

Example

- Nigel granted an EMI option over 3%. Market Value £10,000
- 5 Years – shares now worth £100,000
- Company is taken over – Options exercised prior to sale
- No tax paid when options are granted or exercised.
- £10,000 option price paid out of proceeds (see below) – Receives £90,000 net
- Shares sold next day. Nigel pays CGT on £90,000
- Tax payable £7,750. ER available for EMI shares < 5%
- If unapproved – Tax charge £40,500 (45% tax payer)



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Audit & Accountancy Update

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Two common areas of misconceptions within the audit process

- Going Concern
- Prevention and Detection of Fraud



Why have we chosen these topics?



carillion

**PÂTISSERIE
VALERIE**



**Thomas
Cook**



The response to these corporate failures

- Fingers pointed at the company auditors
- External scrutiny of the audit profession
- Independent reviews into the audit profession
- Audit reform in the UK



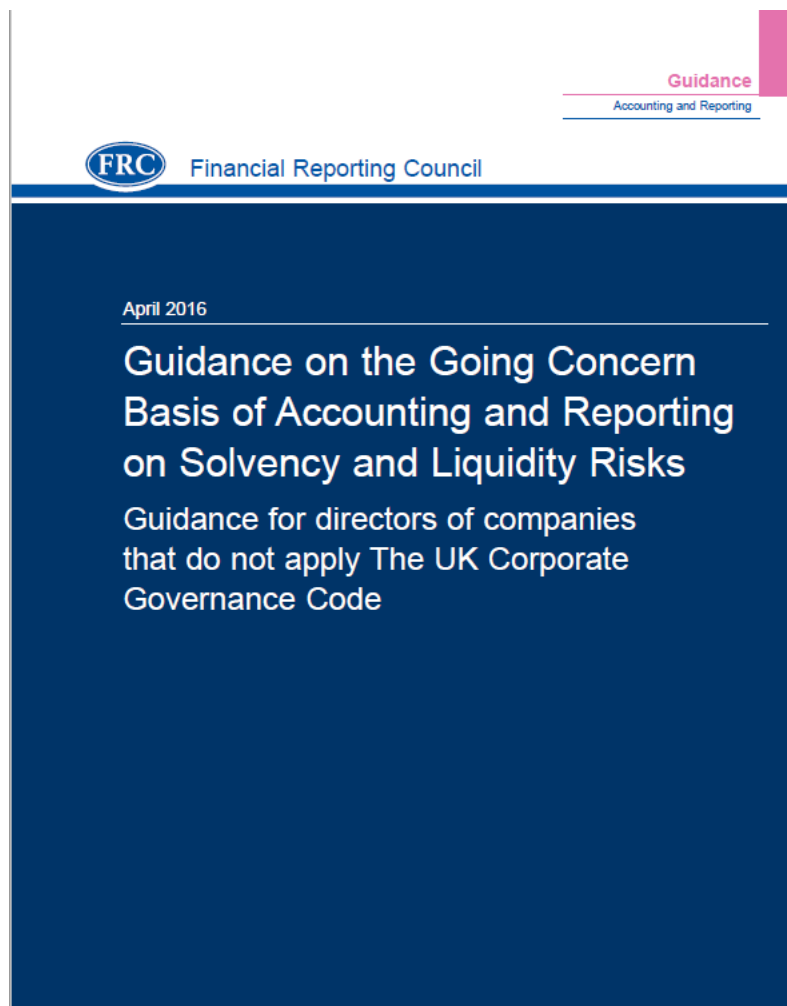
What does Going Concern Mean?

- FRS 102 - Section 3 – Financial Statement Presentation has two paragraphs on Going Concern

Going concern

- 3.8 When preparing financial statements, the management of an entity using this FRS shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the financial statements are authorised for issue.
- 3.9 When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.





Further Guidance for Directors

<https://www.frc.org.uk/news/april-2016/guidance-on-the-going-concern-basis-of-accounting>



The Responsibilities of the Auditor in Relation to Going Concern

- Set out in the International Standard on Auditing (UK) 570 – ISA (UK) 570
- Revision issued on 30 September 2019
- ISA (UK) 570 is one of 38 separate Auditing Standards
- 973 pages of the Auditing Standards
- The requirements of the ISA's generally apply equally to the audit of listed plc's as they do to charities with income streams over £1m



The Revised Standard Requires:

- greater work on the part of the auditor to more robustly challenge management's assessment of going concern and thoroughly test the adequacy of the supporting evidence.
- a new reporting requirement for the auditor of listed and large private companies to provide a clear conclusion on whether management's assessment is appropriate.
- a stand back requirement to consider all of the audit evidence obtained when the auditor draws their conclusions on going concern.



Audit Report Wording

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



The Auditors Approach

Undertake a risk assessment based on the financial statements.

Some key triggers would include:

- Deficit of shareholder's funds and or net current liabilities
- Necessary borrowing facilities have not been agreed
- Fixed term borrowings close to repayment
- Negative operating cash flows (making losses!)
- Not paying creditors within credit term extending VAT and PAYE payments.
- Loss of major customer, staff or some sort of operational issue
- Breach of bank covenants or similar for invoice discounting.



Streets Construction Ltd Statement of Financial Position 30 September 2019	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets				
Tangible assets		3,498		2,167
Current assets				
Stocks	33		26	
Debtors	348		424	
Cash at bank and in hand	<u>-</u>		<u>98</u>	
	381		548	
Creditors: amounts falling due within one year				
	<u>512</u>		<u>536</u>	
Net current assets/(liabilities)		<u>(131)</u>		<u>12</u>



The Responsibilities of the Company in Relation to Going Concern

- The key points from the revised ISA (UK) 570 are:
 - It is the responsibility of the company management to produce sufficient documentary evidence to demonstrate that the company is a going concern.
 - This will involve projections and cash flows
 - Management will have to make assumptions in order to predict the future performance.
 - Management need to be satisfied that these projections provide adequate evidence that the business is a going concern and has adequate cash resources.



FRAUD:

Prevention and Detection of Fraud



What is Fraud?

“An intentional act by one or more of the management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.”



Types of Fraud

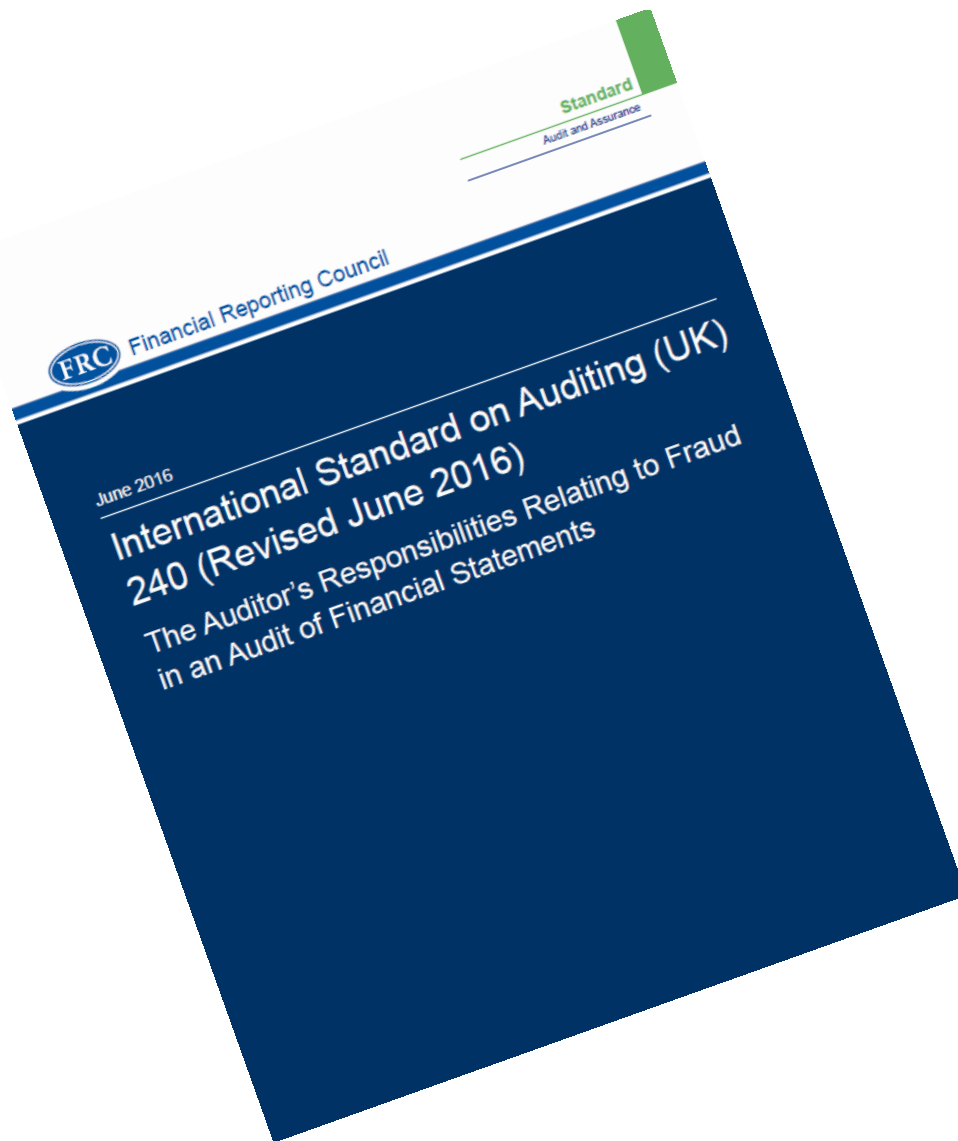
Fraudulent financial reporting

- The manipulation of revenue recognition to increase turnover
- The inflation of stock values to improve profits
- Omission of creditors to improve profits
- Incorrect depreciation rates to inflate or deflate profits
- Manipulation of the results to trigger bonus payments based on result
- Manipulation of figures to meet bank covenants

Misappropriation of assets

- Are there cash takings in a retail outlet subject to theft by employees.
- Stock theft
- Fraudulent bank payments





The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements – ISA (UK) 240



ISA (UK) 240

Responsibility for the Prevention and Detection of Fraud

4. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. (i.e. The Board of Directors)

It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability.



ISA (UK) 240

Responsibilities of the Auditor

5. An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

..... so how does the Auditor obtain ***reasonable assurance?***



Loss of Assets Streets Construction

Background

- Small construction company
- Financial controller – key to the business
- Business owner involved in contracting

The Fraud

- Lack of segregation of duties/authorisation
- Private purchases made on company credit card and sold personally

Outcome

- **Company loss >£100k over 3 years**



Fraud – Loss of Assets – Case 1

Background

- Large company
- Significant team members in the finance section

The Fraud

- Payment fraud – false suppliers/false invoices
- Invoices charged to purchases
- Lack of manager scrutiny for invoice approval
- Exploitation of weakness in company BACs approval system

Outcome

- **Attempted fraud > £200k**



Fraud – Loss of Assets – Case 2

Background

- Small company
- Book-keeper key to business

The Fraud

- Teeming and lading fraud by book-keeper
- Customer 1 remittance diverted to private bank account
- Customer 2 remittance used to cover customer 1

Outcome

- **£23k fraud. Book-keeper in prison!**



What YOU need to consider:

- Can the authorisation of bank payments be over-ridden. Do not allow the requirement for two people to authorise a bank payment to be torpedoed by sharing the password, even if this is to cover holidays.
- Ensure that new suppliers being added to the data base are reviewed. Particularly any changes being made to bank details.
- Look for unusual suppliers or ghost employees on the payroll.
- Ensure that salary rates on the data base are secure and changes correctly authorised.



What YOU need to consider:

- Be vigilant on the approval of purchase invoices; when reviewing on screen it is easy when under time pressure just to hit the authorise key without proper scrutiny.
- The same applies to the third party review of BAC payments.
- Do not rely on the analytical review of your management accounts. The best place to lose an unauthorised payment is purchases as this is likely to be the largest number on the profit and loss.
- Undertake internal audit checks. Get a senior member of management to review the detail on a random basis. Look carefully at your systems, if you tried to get round the controls how would you do it?



Thank You



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VAT Update

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Agenda

SAE Education Ltd v HMRC

The University of Cambridge v HMRC

Royal Opera House v HMRC

KPC Hering (CJEU Case)

Lilias Graham Trust v HMRC

Construction Industry: Domestic Reverse Charge

Import VAT deductions

Higher Education & VAT

Energy Sector: Reverse Charge

TOMS & VAT

Energy Saving Material & Heating Equipment

VAT on Lost Space

Brexit

SAE Education Ltd v HMRC

SAE Education is a commercial provider of education seeking to make profit

Under UK VAT law, the provision of education is exempt from VAT if provided by an eligible body

SAE entered into an agreement with the University of Middlesex to provide degree level tuition which led to a recognized degree award by the University

FTT agreed with SAE – they were a college of the University therefore entitled to exemption under supplies of education by an eligible body

UT overturned FTT's decision so SAE appealed to the Court of Appeal

CoA made a unanimous judgment and dismissed SAE's appeal - SAE did not qualify as a college of the University so supplies would be subject to VAT

The matter was finally taken to the Supreme Court who ruled in favour of SAE, agreed that SAE was classed as a college of University of Middlesex and therefore was entitled to VAT exemption on supplies of education

SAE Education Ltd v HMRC

The Supreme Court identified five factors to be considered in determining whether a body is a college of a university:

- 1) Whether the body and the university have a common understanding that the body is a college of the university
- 2) Whether the body can enrol or matriculate students as students of the university
- 3) Whether those students are generally treated as students of the university during the course of their period of study
- 4) Whether the body provides courses of study which are approved by the university
- 5) Whether the body can in due course present its students for examination for a degree from the university

The University of Cambridge (UoC) v HMRC

UoC is a charitable organisation primarily providing exempt education services to students

UoC also carries out a number of taxable services such as consulting, catering, accommodation etc.

UoC currently uses an approved partial exemption special method to recover input VAT incurred in respect of their taxable supplies

UoC pays fees in relation to the Cambridge University Endowment Fund, which is managed by a third party fund manager

The issue surrounding the case is whether the VAT charged to the University by the third party fund manager in relation to these fees, can be reclaimed as input tax.

The University of Cambridge (UoC) v HMRC

UoC contends that they are entitled to reclaim a portion of the VAT incurred – HMRC rejected the claim saying the fees didn't form part of the cost of the supply of taxable services

FTT found in favour of UoC – the fund management fees were expenditure incurred for the purposes of the University's economic activities

UT further ratified the FTT's position – HMRC appealed to CoA who referred questions to the CJEU for a preliminary ruling

CJEU stated that in order to determine whether it was possible to deduct the VAT, it was necessary to first determine whether the investment of donations and endowments into a fund constituted an economic activity – they found that it did not – any VAT incurred in respect of the costs in connection with the investment is therefore not deductible – CJEU found that costs associated with the investment are not included in the price of the supplies made by the University - therefore, no direct and immediate link between the costs and the activities of the University as a whole and so, VAT relating to said costs are not deductible

Royal Opera House Covent Garden Foundation (ROH) v HMRC

ROH sought to argue that even though admissions to events were VAT exempt, some of their production costs had a direct and immediate link with various taxable supplies made such as catering income, shop income and ice cream sales

ROH believed it should be allowed to apply partial exemption to costs allowing them to recover some VAT

The Court advised that, as per case law, to establish a direct and immediate link is that the cost of the input (production costs) is incorporated in the cost of the output (taxable supplies)

The Court assessed each taxable supply stream individually and concluded the following:

Catering and Ice Cream Income: direct and immediate link – restaurant menus are set at a higher price for the more expensive productions – it was seen that few people would attend ROH merely to eat dinner

Commercial Venue Hire: no direct and immediate link other than for a production specific event – this link is not seen for other commercial events such as the ‘Wimbledon Champions Dinner’

Production work for other companies: no direct and immediate link – the outside work undertaken by ROH is at a fixed price (including materials and labor) therefore, the productions costs cannot be seen as a cost component of this supply

Therefore, the Court concluded that input tax could be reclaimed in relation to aspects where direct and immediate links were found and partial exemption could be applied to their recovery of input tax.

Supplies of 'Building Land' – Exempt? KPC Herning (CJEU C-71/18)

KPC Herning is a Danish property development company who planned to develop social housing for young people

They purchased land from the Port of Odense and was treated as being VAT exempt as the transfer related to a property with an existing building (a warehouse) on it

The Danish tax authorities disagreed, stating that it was a taxable supply of building land (under Danish law, supplies of building land is excluded from exemption)

KPC had planned to demolish the warehouse and replace with new residential buildings

The question to the CJEU was whether a supply of land supporting a building can be classified as building land, where the intention was to demolish the existing building and replace with a new one.

THE CJEU considered the Danish law and said that a supply of land with a building on it cannot be classified as 'building land' where the transaction is economically independent of other services (such as demolition), even where there is an intention to demolish the building to make room for a new one

Therefore KPC had applied the correct VAT treatment.



HMRC v Lillas Graham Trust (LGT)

This appeal concerned the nature of supplies made by LGT, and considered the scope of welfare exemption in connection with the supplies made

LGT is a charitable organisation which operates residential assessment centres supporting parents in learning how to care for their children

LGT invoiced the local authority and treated their supplies as taxable. HMRC disagreed, stating that the supplies by LGT to the local authority were closely linked to welfare services relating to care and protection of children, and therefore should have been exempt.

The Court dismissed LGT's appeal on the grounds that the 'essential purpose' of LGT's supplies was to ensure the care and protection of children and therefore their supplies were closely connected with exempt supplies of welfare.

Construction Industry: Domestic Reverse Charge

Originally planned for this year, the scheme has now been delayed and will commence on 01st October 2020

The scheme will have a significant impact on the accounting practices and cash flow of businesses in the construction sector

DRC requires the customer who receives certain supplies of construction services to account for VAT rather than the supplier

DRC affects supplies of building and construction services supplied at the standard or reduced rates which are reported under CIS (it will therefore not affect zero rated supplies)

Businesses will be required to identify who is an 'end user' (charge and account for VAT under normal rules) and who is a 'main contractor' (legend your invoice to say 'DRC applies' and then the contractor will account for this VAT to HMRC instead of you)

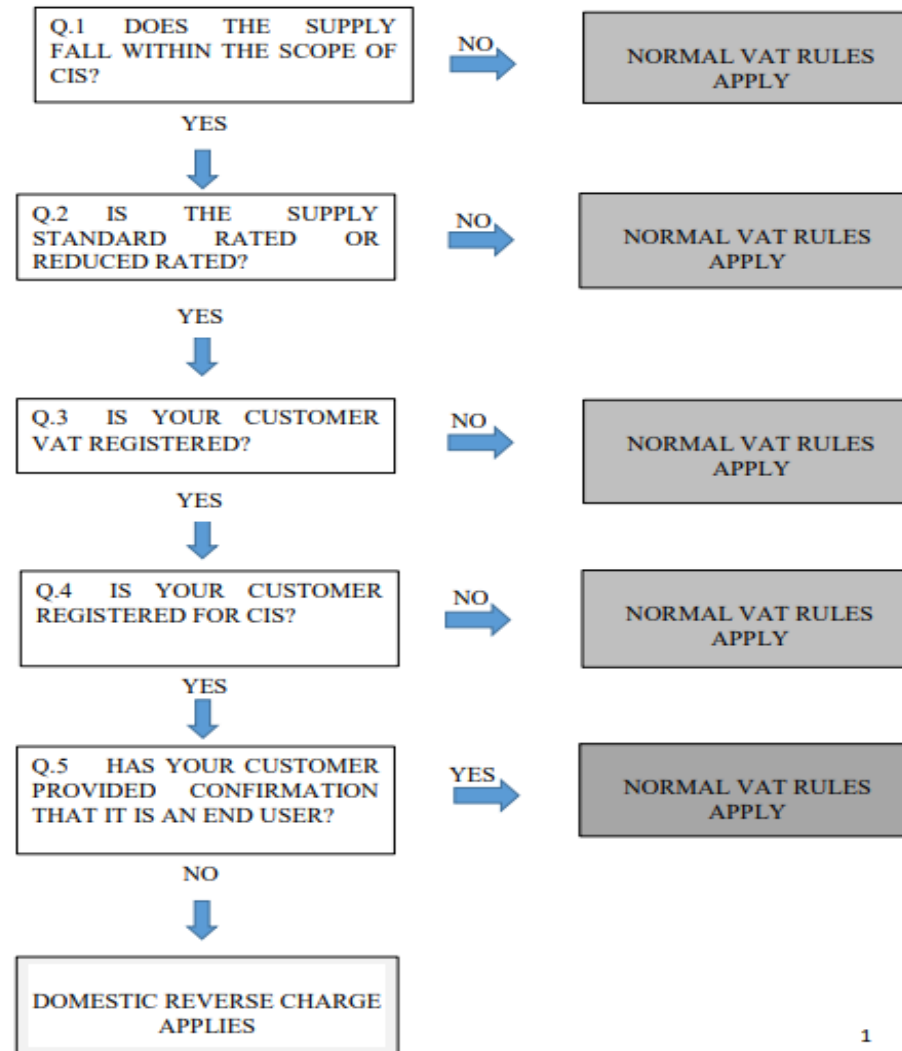
Construction Industry: Domestic Reverse Charge

You may reclaim the input tax on your DRC purchases back subject to the normal rules

Businesses will need to issue domestic reverse charge VAT invoices as per HMRC guidelines (please see VAT Notice 735: Section 7.6).

Software Packages [SAGE]: plan to set up tax code 'T21' which will be assigned to domestic reverse charge. The code can be used by both subcontractor and main contractor. You will only need to enter the net amount.

- Subcontractor using T21 – box 6 will be updated with net amount
- Main contractor using T21 – box 7 will be updated with net amount and VAT will be updated in box 1 and 4



Import VAT deducted as input tax by non-owners

Import VAT incorrectly deducted as input tax by non-owners of goods

From 15 July 2019, HMRC will only allow claims for input tax deductions under the correct procedures

Toll operators: they import goods (e.g. pharmaceutical goods), process them and distribute them within the UK for clinical trials

Toll operators don't take ownership of the goods and do not resell them – they do however distribute the goods onwards as per owner's instructions – only supply by the toll operator is of their services to the goods' owner

Title of the goods remains at all times with the owner (not toll operator) but toll operator acts as 'importer of record' on UK declarations, pays the import VAT to HMRC and receives the C79

The toll operator therefore goes onto reclaim the C79 VAT

There is no provision in UK law for such a deduction

Import VAT deducted as input tax by non-owners

Correct procedure: owner to be importer of record and reclaim import VAT as per section 24, VATA 1994 (if UK VAT registered business)

In some situations, businesses sell on the goods just before importing them into the UK – ownership and title has passed on to the new owner

Business that sold the goods acts as importer of record on UK declarations, pays import VAT and receives C79

Correct procedure: new owner of the goods to be the importer of record and reclaim import VAT on C79 as per section 24 of VATA 1994

VAT Rules Changes for Higher Education (HE)

Change in legislation removes VAT exemption for English HE providers which are currently eligible to receive support from central funding or are higher education corporations

VAT exemption only applies to providers registered with the OfS in the approved category from 01st August 2019

Eligible body status

With effect from 1 August 2019, an eligible body is:

- a school, sixth form college, tertiary college or further education college or other centrally funded further education institution (defined as such under the Education Acts)

VAT Rules Changes for Higher Education (HE)

- a centrally funded higher education institution in Wales, Scotland and Northern Ireland (defined as such under the Education Acts)
the governing body of one of these institutions:
 - a local authority
 - a government department or executive agency
 - a non-profit making body that carries out duties of an essentially public nature similar to those carried out by a local authority or government department
 - health authority
- a non-profit making organisation that meets certain conditions
- a commercial provider of tuition in English as a Foreign Language, in which case special rules will apply (see section 9)
- a university

Reverse Charge: Renewable Energy Certificates

Implemented from 14th June 2019, Reverse Charge also applies to supplies of gas and electricity certificates (RECS) in the UK

Renewable energy certificates are commonly called Guarantees of Origin (GoOs) and are also known as:

- Renewable Energy Certificates (RECS)
- Renewable Obligation Certificates (ROCS)
- Renewable Energy Guarantee of Origin (REGO)
- International Renewable Energy Certificates (I-RECS)

This change is in response to a serious and credible threat of missing trader intra-community fraud in this sector



Reverse Charge: Renewable Energy Certificates

RECS are certificates issued to gas and electricity generators when they produce energy from renewable means

These certificates can also be bought and sold as a commodity attracting others into the market

This change will affect all VAT registered traders who buy or sell RECS

UK customer receiving supplies of renewable energy certificates must account for the VAT due on these supplies on their VAT return rather than the UK supplier

Renewable energy certificates bought or sold by a UK-based business that is VAT registered will be subject to UK VAT – this is the case even if those certificates are being traded outside the UK

Where certificates are supplied as part of a power contract then the overall supply is treated as a single supply of power where the reverse charge will not apply

VAT Tour Operators Margin Scheme and Retained Payments & Deposits

Currently businesses making TOMS supplies are able to choose between 2 different methods for determining when their supply became taxable which are:

- 1) Method 1 – account for VAT when the traveler departs/ accommodation is occupied
- 2) Method 2 – account for VAT when taking payment (if it exceeds 20% of the sale price) or if they received a deposit of 20% or less, then the treatment in method 1 applies.

The correct treatment for the above methods with regards to payments made for unfulfilled TOM's supplies is as follows:

- 1) Method 1 – businesses should not include money paid for unfulfilled supplies in their TOMS calculation (a tax point has never occurred)
- 2) Method 2 – businesses should include money paid for the unfulfilled supplied in their TOMS calculation, where more than 20% of the price of the supply has been paid. If they have received 20% or less, then the treatment in method 1 applies.

The effect of this correct treatment may result in businesses having overpaid VAT since 1 March 2019, and these businesses are able to claim back this overpaid VAT under the normal error correction procedure.

Energy-saving materials and heating equipment

The guidance, which has been updated in accordance to a decision from the CJEU, explains when the installation of energy-saving materials and heating equipment is subject to the reduced rate of VAT. The changes in the guidance include:

The installation of wind or water turbines no longer qualifies for reduced rating

The reduced rate remains fully available when certain social policy conditions are satisfied when installing within residential accommodation.

The first condition is that the supply is to a 'qualifying person;' the second condition is that the supply is to a 'relevant housing association;' and the third condition is where the building is used solely for a 'relevant residential purpose.'

Where the social policy conditions are not met, there is updated guidance on the new 60% test which is to be applied to the supply of installing energy-saving materials.

VAT on lost space of bathroom and washroom conversions for disabled people

HMRC has published guidance providing more detail on the reliefs from VAT that apply to disabled and older people, along with an explanation that associated works to restore lost space in a property due to an installation, extension or adaptation of a bathroom, washroom or lavatory that was necessary due to a person's disability can be zero-rated.

It should be noted that:

The zero rate does not extend beyond the reinstatement of the 'lost space', so everything else will be standard-rated.

Any extra new space must be treated as standard-rated. An apportionment of the zero and standard-rated parts must be made.

The application of the zero rate in these circumstances only applies to the reinstatement of 'lost space' in terms of building works. It does not extend to fixtures, fittings, units etc. However, the zero rate does apply to the provision of utilities that were available in the original converted room.



Brexit 2020

Brexit 2020

- Extension agreed & Brexit delayed until 31 January 2020
- Worst case scenario: No Deal – UK faces a hard exit from the single market
- UK will be a non-EU country
- UK to be treated as per current third country rules currently in place between EU and the rest of the World
- Businesses need to ensure that they have reviewed all aspects of their business model to plan ahead and mitigate risks as quickly and effectively as possible

Things to Consider

Cash flow:

Plan ahead and account for economic uncertainty – could affect sales, inventory levels, collection of debtors, complex port procedures

Custom Duty:

Taxes levied on imports – no tariffs on trade wholly within EU Customs Union – if there's no deal then these will be levied – will need to consider implications for pricing, purchasing decisions and contracts

EORI Number:

UK businesses trading with the EU or rest of the World will require an EORI number – in no deal scenario goods will need to pass through customs and declarations need to be completed – consider engaging a freight forwarder/customs agent to assist with documentation – some businesses may benefit from CTC (simplifies how goods pass through customs)

Simplified Import Procedures:

Potential to defer VAT and duty payments on imports – saves time at ports and helps cash flow – duty deferment account required – do not need this account for import VAT if accounted for on your VAT return

Things to Consider

Reviewing Contracts:

Check terms used in contracts – ensure they are appropriate for post-Brexit arrangements – contracts, INCO terms, terms and conditions of service will need to reflect your position post-Brexit (e.g. you will be an international exporter post-Brexit) – details on how VAT will be dealt with post-Brexit

VAT Liability:

The UK will have full control over the VAT system post-Brexit and rules could change and past rulings could be reconsidered – ensure you keep up to date with the latest movements

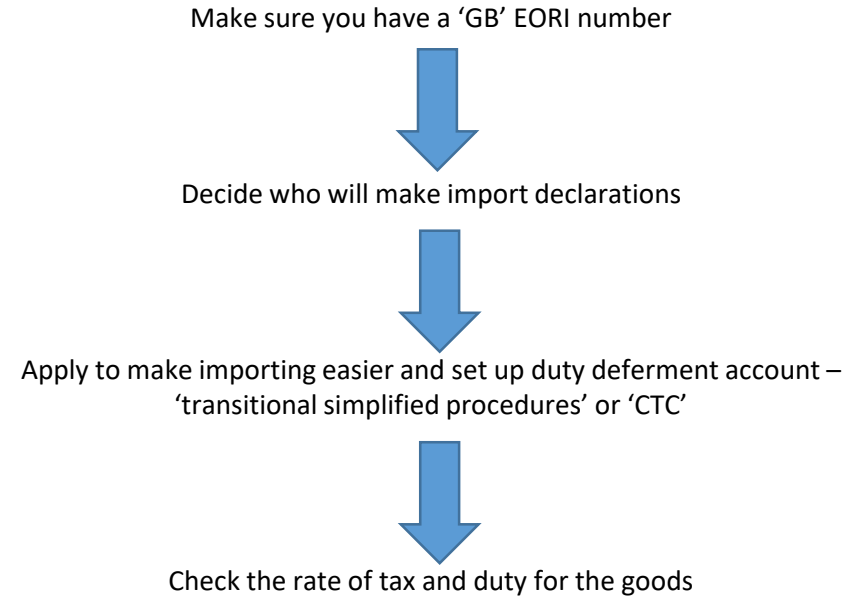


Brexit Checklist

Exports to EU



Imports from EU



Completing a European Community Sales List (ESL)

For periods starting after the day the UK leaves the EU, businesses will no longer be required to submit a European Community Sales List. Completed ESLs will need to be sent as normal for periods prior to Brexit if you are registered for UK VAT and supply goods or services to EU VAT customers. Businesses completing simplified annual ESLs will be contacted by HMRC separately.

Brexit 2020

Common Transit Convention (CTC):

By using the CTC process you:

- Move goods quickly as customs declarations are not required at each border crossing
- Only pay customs when goods reach their final destination
- Can complete some customs procedures away from the border

To be able to use CTC, businesses must:

- Apply for an EORI number
- Get a guarantee
- Register for the new Computerized Transit System to make declarations

VAT on goods you move from Ireland to Northern Ireland in a no deal Brexit

Following a no-deal Brexit, import VAT will be due on goods moved from Ireland to Northern Ireland. This will include goods that:

- 1) end their journey in Northern Ireland and/or
- 2) move through Northern Ireland on the way to GB.

In order to account for import VAT, you should follow one of the following procedures:

- VAT registered business – do so on your normal VAT return
- Non-VAT registered business – a new online service is being introduced to allow you to submit a quarterly import VAT return. You will need to sign up for this service if a no deal Brexit goes ahead. You will not have to register for VAT or charge it (unless otherwise required).

EU VAT refund system

If the UK leaves the EU without an agreement, then UK businesses will continue to be able to claim refunds of VAT from EU member states but in future they will need to use the existing processes for non-EU businesses

UK business will no longer have access to the EU VAT refund system

UK businesses will continue to be able to claim refunds of VAT from EU member states by using the existing processes for non-EU businesses

This process varies across the EU and businesses will need to make themselves aware of the processes in the individual countries where they incur costs and want to claim a refund

You can find further information about claiming VAT refunds from EU member states on the [EU Commission's website](#).



VAT Update

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Finance Leaders Update

Imperial War Museum, Duxford

Thursday 14th November 2019

