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Struggling to pay your VAT bills? New Business Payment Support Service

If you have or anticipate having difficulties in meeting VAT payments, then help is at hand.

HMRC have launched a new support service to assist businesses in managing their VAT liabilities. This is for new enquiries only. If you have already entered into discussions with your local Debt Management Unit regarding "time to pay" agreements, you should continue to liaise with that department.

The main message to businesses is that if you are

having cashflow difficulties, you should make contact with the specialist team at an early stage, in order to discuss your options. You should not wait until the due date has passed. If you reach an agreement regarding your VAT payment, you will not be charged late payment penalties if you are unable to make the full payment due, provided that you do keep to the agreement reached. Interest will be charged where applicable.

Full details of the service are available on HMRC's website.

The cost of hiring temporary staff is set to increase!

If you employ temporary staff, then you may only have to pay VAT on the margin (fee excluding the workers' salary) paid to the employment agency/bureau. The current treatment is possible due to a concession, known as the "staff hire concession". With effect from 1 April 2009, this concession will be withdrawn and VAT will become due on the full amount to the employment agent.

The concession is no longer deemed valid under EU law, due to changes in the Employment Regulations (Conduct of Employment Agencies and Employment Businesses Regulations 2003). Despite sustained lobbying by the main industry trade body, this change is likely to be introduced on 1 April 2009 as announced.

If you are able to reclaim VAT paid in full, this change

will have little impact other than on cash flow. However, if you operate in one of the exempt sectors such as Finance, Charities, Health or Education, then your irrecoverable VAT costs are set to increase.

Alternative business models are being considered by the larger employment agencies, however, these can be complex and may not successfully mitigate the full VAT cost.

If you are likely to be affected by this change, you should be discussing this issue with your temporary staff provider.

A hidden VAT cost for house builders

With the slowdown in the economy, many businesses are unable to sell newly built property. The obvious solution is to try and rent in the short term until buyers can be found. However, this could lead to a hidden VAT cost for house builders.

The sale of new dwellings by a builder/developer is zero rated, which means that the VAT incurred on the main construction costs can be reclaimed. However, the letting of dwellings on a short term basis is exempt from VAT. This gives rise to a potential claw back of the VAT reclaimed on construction costs. There are "de minimis" limits and most smaller builders are likely to fall below these, which means that no clawback will be required. However, this will have to be demonstrated to HMRC. Business Brief 44/08 and Information Sheet

7/2008 explain the calculations and de minimis tests in detail.

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The VAT package - new rules for cross border services

If you are a business supplying or receiving cross border services (Business to Business "B2B"), new VAT rules will come into effect on 1 January 2010. The new rules effectively render the basic rule for the place of supply of B2B services as the customers' country. The customer will account for the VAT under the reverse charge procedure. There will of course be some exceptions to the basic rule for services such as catering, hire of means of transport, cultural, sporting, scientific, educational and services relating to immoveable property.

Most of the proposed changes are welcome as they will reduce the VAT cost and administration for businesses supplying management, administration, payroll, and bookkeeping services. There will also be an electronic VAT refund system for non established businesses which will be a great improvement on the current paper system.

However, as always the "simplification" measures are not all good news. There will also be additional reporting requirements. For example, under the new rules, businesses will have to complete monthly EC Sales Lists for Services (currently applies to cross border goods only). This is a further attempt to combat fraud.

Other revised proposals are:

- For sales of goods above 100,000 Euros per calendar quarter, monthly ESL's will be required. Below this threshold, quarterly ESL's can be filed.
- For services, Member States can decide whether ESL's should be filed monthly or quarterly. The UK has opted for quarterly filing.
- For both goods and services, annual ESL's can continue to be filed by those businesses which meet the current low value conditions.
- Shorter filing deadlines for new monthly ESL's for goods. Currently businesses have 42 days from the end of the quarter to file ESL's. This will be reduced to 21 days which will be a very tight deadline to meet.

- New rules on joint and several liability ("JSL") for Intra EU supplies of goods. The new JSL rules will allow any Member State to assess a UK VAT registered business for acquisition VAT which was not accounted for by the customer and where the UK supplier has not correctly reported it in the monthly/quarterly ESL. Under Mutual Assistance rules, HMRC will have to assist the other Member State to collect the VAT due but will not be involved in the decision to assess or be able to review the case. Businesses will have to appeal via the Courts in the Member State where the goods were acquired.

These new rules were designed to combat carousel fraud but will affect all businesses even where there is no fraud involved. As a result, they are controversial and much wider than thought necessary. SME's are particularly likely to be affected as they will be selling direct to overseas customers rather than to group companies which then sell to the domestic market.

Further changes are planned in 2015 for telecoms, broadcasting and electronic services.

It remains to be seen how many of the draft proposals are implemented into National legislation. Whilst the implementation date may still seem some way off, most of the changes will have a significant "lead in" time to alter processes, capture new data and change accounting systems.

Further information will be published as soon as it becomes available.

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