Coping with VAT forms: getting to grips with paperwork

Indirect Tax



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We give practical tips on important VAT forms that need to be completed during the life of a typical business, highlighting common errors to avoid.

Key Points

What is the issue?

The high amounts of tax involved with land and property transactions means that an understanding of the main principles of the option to tax procedures and the forms to complete is important.

What does it mean to me?

A business registering for VAT must be clear about the difference between the compulsory and voluntary registration dates. It can register before the compulsory

date but not afterwards.

What can I take away?

Errors notified to HMRC on Form VAT 652 will be subject to an interest charge for underpayments but this can be averted if the error has not led to any tax loss to HMRC and a box is ticked on the form to confirm this outcome.

HMRC has often claimed that big backlogs in issuing VAT registration numbers are caused by basic errors made by the applicants when they complete Form VAT 1. These mistakes mean that officers must usually contact the business owner or adviser for more information, with inevitable delays and wasted time for everyone.

In this article, I will consider important VAT forms that are submitted to HMRC, including the option to tax forms in the VAT 1614 series, which must be completed by property owners and landlords involved in a range of property deals.

Registering for VAT: Form VAT 1

The default position to register for VAT is to complete the application form online. This produces the following benefits:

- The online process alerts the applicant to possible errors made in the completion of the form, preventing unnecessary delays and corrections at a later date.
- The online submission takes away the risk of a ‘lost in the post’ outcome of a paper application.
- HMRC has confirmed that it processes online applications quicker than postal forms.

Postal applications can still be made in limited circumstances if:

- it is ‘not reasonable or practical to use the online service’ because of age, health, disability or location;
- there is an objection to using computers on religious grounds; or
- there is no access to the internet.

In such cases, the applicant must telephone HMRC and ask for a postal form. In other words, HMRC must be satisfied that an online submission is not practical.

Note: If an application involves supplies linked to property – either construction services or development projects – the questionnaire form VAT5L must also be submitted.

Effective date of registration

To reduce potential confusion, it is important to be clear about the difference between a compulsory date of registration and a voluntary date.

To share a tale, I recently reviewed a Form VAT 1 prepared by an accountant on behalf of a client and the question about the date when the taxable turnover threshold was exceeded was answered as 31 May 2024. This meant a compulsory registration date of 1 July 2024; i.e. 30 days after the limit was exceeded. So far, so good.

However, in the section headed ‘Do you wish to apply for an earlier date of registration?’, the accountant answered: ‘Yes, 1 August 2024.’ You can request a date that is before the compulsory date – usually to produce an extra input tax windfall – but not afterwards.

Another common error is to misunderstand the forward looking registration test. If a business expects to make taxable sales of £90,000 or more in the next 30 days, the registration date is the beginning of the 30 day period.

Exception or exemption?

Are you clear about the difference between a request for an ‘exception’ to registering for VAT and an ‘exemption’? Both words start with ‘ex’ and finish with ‘-tion’ so the confusion is understandable.

- **Exception:** A business has exceeded the compulsory threshold on a temporary basis but expects that its taxable sales in the next 12 months will be less than the deregistration threshold of £88,000.

- **Exemption:** If the business registered for VAT, it would submit regular repayment returns; i.e. input tax would regularly exceed output tax, mainly due to zero-rated sales.
  HMRC Notice 700/1 paras 3.7 and 3.11

When requesting an 'exception' from registering – which must be agreed with HMRC and cannot be assumed to be an automatic right – a business must select the reason for exceeding the threshold from either question 7, 8 or 9 on Form VAT 1 and then select the box requesting an exception. A covering letter should be submitted which clearly shows – with evidence – why an exception should be granted. Form VAT 1 should be fully completed on paper. If the exception is rejected, HMRC will treat it as a normal application and issue a registration number.

Deregistration: Form VAT 7

For deregistration purposes, there are also 'compulsory' and 'voluntary' deregistrations. In both cases, the form to submit online to HMRC is a Form VAT 7.

- **Compulsory deregistration:** A business has ceased to make taxable supplies. The deregistration date is the date of the final sale.
- **Voluntary deregistration:** A business is still trading but expects its taxable sales will be less than £88,000 in the next 12 months.

A common error with compulsory situations is to delay deregistering on the basis that there is outstanding input tax to claim. See ***Builder Bob: compulsory deregistration***.

The most common error with voluntary deregistrations is to forget about the need to account for output tax on assets still owned on the date of deregistration and where input tax was claimed when they were purchased. Output tax is calculated according to the market value of the assets on the deregistration date, subject to a deminimis VAT amount of £1,000.

Builder Bob: Compulsory deregistration

Bob decided to retire on 31 March 2024. He should deregister on this date as he has ceased to make taxable supplies.

He can still claim VAT paid on expenses incurred after this date that relate to his period of registration by submitting a claim to HMRC on Form VAT 427; e.g. accountancy fees that relate to his trading period. The form can also be used to reclaim output tax declared on a return where the customer never paid the invoice; i.e. bad debt relief as long as the relevant conditions are met (see HMRC Notice 700/18).

Error corrections: Form VAT 652

A business can correct errors on its next return – rather than submit Form VAT 652 to HMRC as a formal notification – where the net tax owed or owing is less than two limits:

- £10,000; and
- between £10,000 and £50,000 if this amount is also less than 1% of the Box 6 outputs figure on the return where the correction is being made.

For example, the Box 6 outputs figure on the return to the period ending September 2024 is £3.5 million. The business can correct past errors on this return if the net amount owed or owing is less than £35,000.

Errors on returns that are more than four years ago are out of time and cannot be adjusted. Here are two common errors with Form VAT 652:

- **Interest:** HMRC's computer will automatically charge interest on any underpayments to reflect the late payment of the tax in question. However, if an error has not resulted in a loss of tax to HMRC, a box can be ticked to avert an interest charge. The most common situation is when output tax not charged by one business would have been fully claimed as input tax by the recipient. (See VAT Notice 700/43 para 2.2.)
- **Careless behaviour penalty:** If a business corrects an underpayment on its next return because the net amount owed or owing is within the limits explained above, Form VAT 652 should still be submitted to HMRC to fully disclose the details of the errors if they were caused by careless behaviour. This will reduce a potential penalty of 30% to nil. However, it is important to tick the relevant box to confirm that disclosure is being made for penalty purposes. Otherwise, HMRC will issue an assessment for the underpayment, which will

cause a lot of unnecessary complications and double-paid tax.

Option to tax forms

Even though the option to tax regulations have been in place since 1 August 1989 – when Margaret Thatcher was still prime minister – there are still many common errors made with the option to tax forms that relate to property deals.

The option to tax forms range from VAT 1614A to VAT 1614J and must be completed by the right people at the right time because the amounts of tax involved with property deals are considerable and mistakes can be costly. See ***Option to tax forms: common errors***.

Option to tax forms: common errors

Form VAT 1614A

Most option to tax elections notified to HMRC are made by submitting this form, which means that future income earned from a specified building or plot of land will be standard rated rather than exempt. There are two different dates to consider:

- First is the date when the business took the decision to opt.
- Second is the notification on Form VAT 1614A, which must be made within 30 days of the decision date. HMRC will reject the form if the date requested is more than 30 days before the decision date.

Retrospective election date

If a business took the decision to opt but failed to notify HMRC within 30 days, HMRC will usually backdate the election date if the business can provide proof of its original decision; e.g. by showing that VAT has been charged on rental invoices since the original date (see HMRC Notice 742A para 4.2).

Form VAT 1614H

What happens if a landlord has rented out a property for the last five years and never charged VAT on rental supplies because they have never opted to tax but now wants to opt to tax and charge VAT on future income?

The landlord must consider whether Form VAT 1614A is still the correct form to complete because ‘automatic permission’ applies to the option or whether the business must instead complete Form VAT 1614H and seek HMRC’s permission.

The relevant section to review is HMRC Notice 742A s 5, which explains four qualifying conditions. If a business meets one of the conditions listed in Box D of para 5.2, it can still complete Form VAT 1614A but the outcome of ‘automatic permission’ is recorded on the form.

Form VAT 1614D

This form is relevant if a person or business acquiring an opted building intends to use it as or convert it into either dwellings (e.g. houses, flats or bungalows) or a building for a relevant residential purpose (e.g. student accommodation or an elderly persons home).

The sale will be exempt from VAT rather than standard rated because the seller’s election is overridden. The buyer must give the form to the seller before exchange of contracts; i.e. before the price of the deal is legally fixed.

Form VAT 1614J

An election can be revoked when it has been in place for 20 years; future income from renting out or selling the land or building by the original opter will be exempt from VAT rather than standard rated.

A common error is to think that the relevant date with the 20 year rule is when the building was purchased. This is incorrect – it is all about the date when the election first took effect.

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