



Surviving the VAT Jungle In the Current Credit Crunch

John Crawford of The VAT Consultancy outlines how businesses can get the best of the VAT system to improve their cash flow.

It's a well known fact that global governments favour VAT and similar taxes such as GST as an attractive alternative for raising revenue. However the burden of collection falls on the suppliers of goods and services, while the tax is likely to be borne by local consumers. In the current global climate VAT and GST are being used to replace revenue lost as a result of tariff cuts required under World Trade organisation agreements. Governments look at VAT as "real time" tax as it is collected instantly, so it is becoming an increasingly important and attractive option. For example Dubai is looking seriously at introducing VAT in the next year or so.

A recent poll carried out by KPMG of over 500 companies around the world questioned Finance Directors and Tax Directors on their attitudes towards indirect tax. The survey showed that most businesses saw VAT as a greater risk than corporate tax but it is still seen as a "compliance tax".

There is the potential for VAT to create a competitive advantage. However the KPMG survey found that there were significant obstacles to better VAT management, the main ones being a lack of clarity on legal issues, lack of awareness of opportunities, lack of resources, the attitude of tax authorities and lack of data.

The impact of VAT on cash flow is clearly extremely important, particularly given the current economic situation. There are VAT planning opportunities that will improve cash flow which range from the basic use of cash accounting for smaller businesses who have a turnover of less than £1.3 million to larger businesses regularly reviewing their VAT accounting procedures and making sure that, for example, they collect all the VAT on bad debts. There are additional opportunities for savings for businesses involved in overseas trade, both import and export, in that they often do not reclaim overseas VAT or that they pay too much customs duty.

Therefore the message is clear. Businesses should be focused on what can be done to improve the impact of VAT on the company's cash position. For example, HMRC's decisions and assessment should always be challenged. The Treasury believes there is a gap in the theoretical take on VAT receipts to the actual receipts received and HMRC Officers are under extreme pressure to collect more and more revenue. As a consequence it is always likely that any decisions given by HMRC will be in favour of levying more tax.

Businesses often either pay too much VAT or don't reclaim enough VAT (or they claim too late) and are often not aware of the opportunities for reducing these costs. There are many examples of businesses challenging VAT assessments even over the last few months, which have resulted in hundreds of thousands of pounds of tax saved.

One option is a VAT health check, which can be an important step to ensuring VAT compliance as well as identifying opportunities for saving tax. Even if no immediate savings are forthcoming, it is likely that clerical omissions, errors and other cracks in the VAT process will be identified, which will need remedial action but will avoid costly penalties and interest at a later date.

For more details of how you can benefit from their expertise, call John Crawford of The VAT Consultancy on 01962 735350 or email via website. www.thevatconsultancy.com