

# VAT in Black & White



December 2010

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## Introduction

Berthold Bauer is the VAT & TAX specialist, working with Government Bodies, the Health Services and Not-for-Profits throughout the United Kingdom.

The 'VAT in Black & White' provides recent VAT and Tax news and developments which affect all Government Bodies and the NHS.

## 'Sponsorship' Income [for conferences]

Many Government Bodies receive income from individuals, charities or commercial companies for conference/event sponsorship. This income can have varying VAT liabilities:

By default, supplies of land are exempt from VAT; therefore if the charge is purely for the rental of a stand at a conference, the supply would be exempt (unless there is an

Option To Tax in force on the building).

If the charge is for rental of a stand plus any other supplementary services (e.g. physical advertising) or any other amenities then the supply would be standard rated.

A pure donation alone, where the contributor receives nothing in return for the monies, is Outside the Scope for VAT.



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## Introduction of VAT Penalties for Government Bodies

HMRC has recently announced plans to introduce penalties for VAT errors from 1st April 2011. Penalties will relate mainly to the VAT figures included on your VAT Returns and will be a percentage of any VAT due [to HMRC] plus any interest charges. The main areas of concern will be:

- a) Overclaimed VAT  
*[under the Section 41(3) Contracted Out Service rules]*
- b) Under-declaration of Output tax  
*[from incomes received]*

Where the Body makes an over-claim or under-declaration error, the Body is unlikely to face a penalty from HMRC so long as the Body (or their advisor) identifies and highlights the error, and repays any VAT owed to HMRC in a timely manner.

This is known as an 'unprompted' error, and although it can carry a penalty of up to 30%, we believe HMRC will use discretion to reduce to 0% in most instances.

Where an error is discovered by HMRC, known as an unintentional 'prompted error', the penalty is 30% (which HMRC may reduce to 15%). This would usually be the result of an HMRC visit or a written enquiry to the Body.

At the time of writing we are still waiting on HMRC for much more clarification to the full application of penalties for Government Bodies and the NHS, including whether they can legally apply to COS, the 30th June VAT year end, and the current concession for (retrospective) post year-end Business Activity adjustments. We will of course inform you of any new information as soon as it becomes available.

A full description of applicable penalties can be found on HMRC's website:

<http://www.hmrc.gov.uk/vat/managing/problems/penalties.htm>



### Quotation

*"Common-sense and the law applicable to VAT are not well acquainted"*

[ C&E Commissioners -v- Arbib 1995, STC 490 ]

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**The new VAT fractions:**

Gross / 6 = VAT

Net / 5 x 6 = Gross

VAT x 5 = Net

VAT x 6 = Gross

## VAT Rate Change – 4th January 2011

As you will be aware, the Standard Rate of VAT is increasing to 20% from the 4th January 2011, adding further cost to the already stretched budgets. To hopefully assist, these are some common areas to look out for:

- Bodies should ensure that for all Standard Rated cash income, Output Tax will be recorded from the Gross money received at 1/6th (e.g. catering, staff lease car adjustments, shop income etc). Net incomes will be reduced unless charges are increased to account for the rate change
- Where Bodies receive invoices from 2011 for work performed prior to 2011, suppliers may 'choose' which rate to charge. For larger supplies it would be advisable to request the lower rate is charged to help lower the cost burden
- Items that have been budgeted to be purchased this current financial year could be brought forward and purchased prior to the VAT rate change to save on the 2.5% VAT increase
- For services supplied under normal (continuous) business agreements, the 17.5% rate applies where they are invoiced prior to the 3rd January 2011 (and performed spanning or after this date). Anti-forestalling legislation will also be applicable ~ so for [new] services invoiced prior to the rate change, but where performed after 3rd January, the rate applicable may be 20%.

## Compliance Training

Compliance with HMRC's regulations is an important requirement for all organisations.

We are happy to assist with the provision of [CPD qualifying] bespoke workshops to assist with your own department's procedures.

Please feel free to contact us to discuss any requirements.



**FREE Helpline and Advice**

If you have any VAT enquiries, Berthold Bauer are always happy to offer their FREE expert VAT advice

Telephone: **0800 328 9254**  
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