



VAT | Change in VAT Penalty Policy

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A few days ago HMRC issued a brief announcing a much needed change in the application of penalties to “careless” VAT errors.

This arose from a high profile VAT tribunal case in which a company reclaimed VAT on a property purchase in the VAT return prior to the one in which the actual purchase fell (confusing exchange of contracts with completion as the date that was relevant for VAT). A penalty was applied and upheld by the tribunal in that case despite the accepted fact that the error would effectively have self-corrected in the following period when no further input tax would have been claimed on the purchase and therefore there was a timing difference of only three months.

We immediately drew attention to the unfairness of this case by posting a blog on the issue and recommending reform. A link to this blog follows:

<http://www.haysmacintyre.com/blog/VAT-penalty-for-careless-error.aspx>

We have also been in the forefront of talking to government representatives about the general unfairness of the way HMRC is approaching carelessness penalties.

It is welcome to see that such campaigning can have an effect in bringing common sense and commerciality to the conduct of VAT inspectors.

HMRC’s Brief invites those who believe that they have been unfairly penalised in this manner to ask for repayment of the penalties. We would be very happy to assist anyone who is in this position to make such a claim. Furthermore, this appears to be an opportunity to press harder on other unjust examples of errors being described as “careless” when they were not.

Meanwhile, we suggest you ask us to review your VAT procedures manual (or help you create one) in order to strengthen your hand. And remember that you should contact us for advice on any transactions which are at all unusual or abnormally large for you.

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We will continue to keep up the campaign against unfair approaches by HMRC, where we find them, and we believe we can make an impact for the general good of the tax-paying community by doing so.

A link to the HMRC Brief is provided below.

<http://www.hmrc.gov.uk/briefs/vat/brief1511.htm>

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