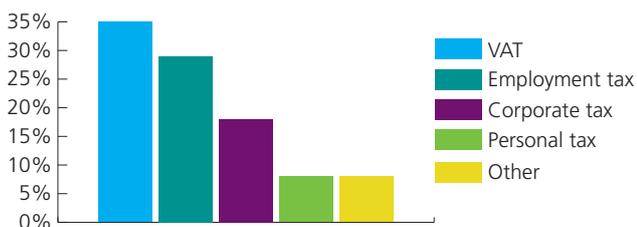


# Meeting the VAT challenge: how are businesses addressing their VAT risks?

Businesses see VAT as posing the biggest tax risk to their company over the next 12 months. Our survey found that businesses could be doing more to protect themselves.

In our survey, 35% of respondents highlighted VAT as their riskiest tax area, although another 29% identified employment tax as highest risk. Concern about VAT may reflect the amounts of tax involved, the potential costs of getting calculations and submissions wrong and the sheer complexity of many of the VAT rules.

## Which areas of tax do you think will be the biggest risk to your company over the next 12 months?



Nevertheless, many respondents express relatively high levels of comfort about their VAT compliance levels, particularly in relation to general VAT compliance: 92% give this as a high confidence score of 4 or 5 (based on a scale of 1 to 5). We also found relatively high comfort levels in relation to VAT accounting systems and processes (73% giving this a top-two confidence score). Most respondents (73%) are also confident that they have sufficient checks and controls in their VAT accounting systems. Some finance teams, however, are less confident, particularly regarding systems and processes. Those with any doubts might gain peace of mind from a VAT review to identify potential issues and risks, as well as opportunities for reducing ongoing VAT costs.

58% have no written VAT policy or process document.

## Prepared for inspection?

Some of the more confident respondents might want to review their position, because well over half of businesses surveyed (58%) have no written VAT policy or process document in place. Failure to capture VAT processes in this way (including who to speak to if any queries or concerns arise) creates unnecessary and high business risk, particularly if key staff suddenly leave or fall ill, or if HMRC decides to conduct a VAT inspection. It's harder to show that your business is taking reasonable care over its VAT compliance without the formal documentation of policies and processes. Once policies and processes are written up, these documents must be reviewed regularly to make sure they stay up to date.

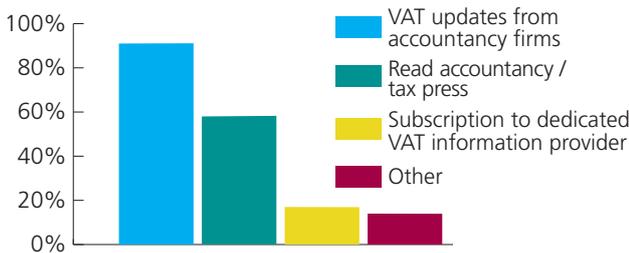
49% have had a VAT inspection in the last four years.

VAT inspections may also be more likely than many businesses think. Despite the widespread perception that HMRC conducts fewer inspections than it used to, 49% of survey respondents have undergone a VAT inspection in the last four years. This reinforces the importance of making sure the business is accounting for its VAT properly and has appropriate systems, processes and controls in place. If HMRC's inspectors haven't come knocking yet, they could well do so soon.

**The knowledge challenge**

Keeping up with VAT changes can be challenging for businesses, particularly smaller operations with more limited internal resources. In our survey, only 28% of participants felt relatively highly confident (scoring 4 or 5) that their awareness of current VAT developments was up to date.

**How do you keep up-to-date with the latest VAT developments?**



However, respondents are taking steps to learn about VAT developments. The vast majority (92%) receive VAT updates from accountancy firms, while 58% read the accountancy or tax press. A few (17%) subscribe to a dedicated VAT information provider, while others are kept informed through other sources such as industry groups and associations or external consultants.

**HMRC and other support**

Only one in 10 respondents have contacted the HMRC National Advice Service in the last 12 months. Their queries covered topics such as errors in VAT declarations and the treatment of new income streams. All those who had used the service expressed 100% satisfaction with HMRC’s response.

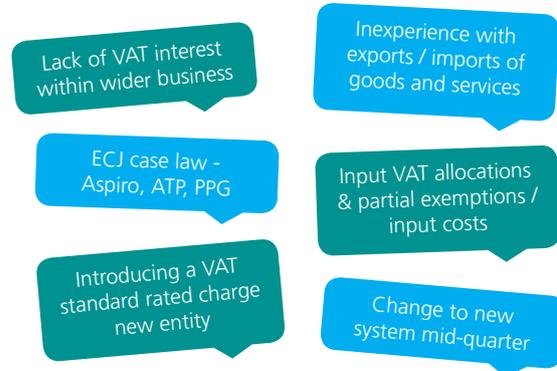
It’s our perception, however, that most businesses would only use HMRC’s service for relatively simple compliance issues. For more complex VAT matters, other external expertise is valued and this is borne out by our survey findings. The majority of businesses do take advice from external sources, particularly their auditors (65%) and external VAT specialists (63%). Only 10% have an in-house VAT specialist.

**Challenging issues**

A wide range of issues have been causing VAT headaches over the last 12 months, reflecting the broad range of businesses in our survey, the complexity of VAT rules and the ongoing developments taking place. All businesses need to take care to address VAT queries efficiently and effectively, taking expert advice as appropriate in order to reduce the risk of errors that could become costly, potentially resulting not only in penalties or interest, but also reputational damage.

One issue not yet being addressed by many respondents is the

**What have been your most challenging VAT issues over the last 12 months?**



impact of Brexit: as expected at this stage, few (only 27%) have a plan in place for the UK’s departure from the European Union. However, when negotiations get fully under way and the potential repercussions become clearer, it will be important for businesses to consider their position. For example, it will be important to ensure that business systems can cope with any changes to VAT rules and procedures.

We received responses from businesses across the UK with annual revenues ranging from over £100m to less than £1m. Participants – mostly CFOs and financial controllers – came from a variety of sectors, including insurance, financial services, shipping, technology, real estate and construction.

**Conclusion: VAT complexity creates pitfalls**

It’s encouraging that so many businesses are relatively confident about their levels of VAT compliance and their VAT systems and processes. But there are areas of weakness and high risk – in missing written policy and process documents, in the challenges involved in staying up to date, and the range of complex issues businesses face, in particular unusual transactions. Regular reviews of policies and approaches and willingness to seek external support and advice, whether from HMRC or other VAT specialists, can help to mitigate the risk of costly tax errors.

Moore Stephens LLP  
 150 Aldersgate Street, London EC1A 4AB  
 T +44 (0)20 7334 9191  
 vat.enquiries@moorestephens.com  
[www.moorestephens.co.uk](http://www.moorestephens.co.uk)