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## VALUE ADDED TAX

- *I'm setting up a new subsidiary in the UK. Do I have to register for VAT?*

All businesses making taxable supplies which exceed the UK VAT registration limit (currently £68,000 in any 12 month period) must register and account for VAT. You should register as soon as you know that you are going to reach this threshold. If you don't register at the correct time you could be penalized.

- *"Taxable supplies"? What are they?*

Supplies means the goods and services your business provides. Most supplies are subject to VAT at the standard rate (currently 17.5%), but some have a reduced rate and others have a rate of zero percent. Also some supplies are specifically exempted from VAT, and some transactions are "outside the scope" of VAT.

- *Can we register voluntarily?*

Yes, if your business falls below the registration limit or makes supplies which are outside the scope of VAT (like management charges to your parent company in Japan, for example), you can choose to register anyway. The benefit is that you can recover VAT incurred on your expenses.

- *Can I start trading before I register for VAT? How long does it take to register?*

Yes, you can trade whilst your application is being processed. You may invoice your customers during this time but you must not issue VAT invoices. When the registration process is complete, you can go back and re-issue the invoices as VAT invoices.

It can take several weeks or even months for HMRC to issue a VAT number. This is because European VAT has been the subject of fraudulent activity in recent years and the government must ensure that it only issues VAT numbers for genuine business purposes.

- *Weren't there some changes to the UK VAT system this year?*  
There has been a Europe-wide change in the rules covering where services are subject to VAT.

The basic position is that they are subject to VAT in the country where the customer belongs. For example, a UK business providing consultancy services to a customer in Japan would not charge UK VAT as the place of supply of the service would be Japan.

However, there are many exceptions to this basic rule. This is a very complex area of VAT and you should take advice specific to your own supplies.

- *Do I have to submit EC Sales Lists and Intrastat Returns?*

If you make supplies of goods or certain services to other businesses within the European Community you have to report the details to HMRC on EC Sales Lists. They are usually submitted quarterly, but if you supply more than £70,000 worth of goods per quarter, you must submit monthly.

Intrastat returns are a detailed record of imports (“arrivals”) and exports (“dispatches”) between EC countries. You have to submit them if you exceed the annual threshold (currently £250,000 for dispatches and £600,000 for arrivals).

- *Are there penalties if we get things wrong?*

Yes, you can be penalized for errors on VAT returns, EC Sales Lists and Intrastat Returns.

The penalties vary between 5% and 100% of the amount of tax due, depending on the severity of the mistake and whether it was accidental or deliberate.

- *This all sounds pretty complex!*

Well it can be, and that is why we strongly recommend you seek professional advice for anything you're not absolutely certain about.