

VAT was once a simple tax...

Les Howard charts the march of VAT from 'simple' to extremely complex – and explains why a return to simpler times would benefit both the Revenue and the taxpayer

On 27 July 1972, the Finance Act 1972 arrived. Among other things it implemented Value Added Tax, to come into force on April Fools' Day 1973. There was a single standard rate of 10%. In its first year it raised the princely sum of £1bn.

The Chancellor of the Exchequer announced that VAT would be a simple tax, a phrase which has echoed down the years.

I have been involved in VAT since April 1983, when I walked through the door of the offices of HM Customs & Excise in Peterborough, a building long since converted to housing at the reduced 5% rate! I've observed some long-term developments which give the lie to the 'simple tax' motif. It will seem obvious to many readers that the tax has grown much more complex. Over those years I have observed some major trends in the way indirect tax operates which has increased in complexity. I would like to suggest that these trends fall into a number of major categories.

The basic principle is that I charge VAT on a supply of goods or services to a customer. I issue an invoice with prescribed information. My customer can claim that VAT subject to certain conditions. There is a tax point, determined in accordance with legislation and an agreed quantum of VAT output tax and input tax. I declare output tax. My customer claims input tax. Simple!

It is clear that this principle no longer applies to all supplies made or received by all taxpayers. We increasingly meet exceptions. The usual principle does not apply to such-and-such a transaction. This supply of goods or services falls outside the usual principle. That trade sector does not follow the same rules. Exceptions are gradually becoming the norm. It is this growing list of exceptions that I want to highlight.

Mandatory schemes

Ostensibly to combat fraud, the Reverse Charge was introduced to cover certain supplies made on or after 1 June 2007. This has expanded from supplies of computer chips and mobile telephones to gas and electricity, carbon credits, telecommunications services, and now construction services.

Tour operators and travel agents have to use the Tour Operators' Margin Scheme. There is a Gangmasters Licensing Authority. There is the Alcohol Wholesalers Scheme. There is a fulfilment house scheme. And, of course, the Reverse Charge and Postponed VAT Accounting for certain cross-border transactions. And we all have to carry out money laundering checks.

The taxpayer cannot easily opt out of these schemes, without changing the supplies he makes or receives.

Voluntary schemes

There are a number of voluntary VAT schemes. These include cash accounting, annual accounting, flat rate scheme, margin scheme for second-hand goods, group registration, and retail schemes. Some traders operate or trade from bonded warehouses. Each scheme comes with conditions and restrictions.

For any eligible business, and a large percentage are eligible for one or more, this represents a further compliance burden. One detail that can cause difficulty is properly understanding the rules about leaving a particular scheme. A further problem is that a taxpayer can assume that the scheme he is enjoying represents the 'normal' way of accounting for VAT (e.g. cash accounting, second-hand margin scheme), when it is actually a statutory concession.

As advisors, we have an obligation to understand each scheme sufficiently to advise clients on the pros and cons, timing joining and leaving, adapting accounting systems, etc.

And what happens if a taxpayer uses more than one scheme?

Refund schemes

The range of refund schemes has grown over the years. VAT Act 1994, s41 provides for Government bodies to enjoy VAT relief. S33 includes local authorities, police and crime commissioners, the BBC and other organisations.

We welcome the addition of refund schemes for academies, museums, palliative care charities, air ambulance charities, search & rescue charities, and medical courier charities. No doubt others will follow. But, the continuing expansion of these provisions, with their various rules and restrictions simply reflects poor legal drafting elsewhere. The claimant organisation has to take the initiative to recover VAT amounts paid out.

More taxes and even more taxes

New indirect taxes seem to appear almost annually at the moment. The Plastic Packaging Tax was followed by the Soft Drinks Industry Levy and now the Digital Services Tax.

These were added to: aggregates levy and landfill tax – one tax for digging a hole and another for filling it in! Of course, we've long enjoyed Excise charged on tobacco, alcohol, and road fuel. And APD and CCL and IPT and MGD, plus those I have missed.

Each of these taxes requires registration and returns and compliance. Penalties apply to non-compliance. I sometimes wonder which business holds the record for submitting returns for the most taxes.

Increased burdens on business

With this growing number of exceptions to the basic VAT rules, it is much more common that a single taxpayer finds himself subject to two or more taxation regimes, sometimes even in relation to the same transaction. The obvious consequence is that errors will be more common.

It could be said that this is good for the tax profession, as it gives us more to do, generating greater fees. Conversely, the burden on the taxpayer is much greater. More and more small and medium sized businesses are falling into the ever-growing number of exceptions and having to comply with multiple indirect taxes.

It seems to me that our departure from the EU provides the opportunity to re-write the VAT Act 1994 to include all these specific supplies, so that those separate taxes can be abolished. A move back towards simplicity. The Office for Tax Simplification might consider starting here!

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