

VAT

Overturing a significant VAT assessment and corresponding penalties

Case study

Our case study involves a business that was split between 2 entities, neither of which was registered for VAT and consequentially a large, back dated **VAT registration** had been directed by HMRC.



Gavin West, Head of VAT and Indirect Taxes at Smith Cooper, worked alongside the client to understand the **business**, establishing its **VAT liability**.



Gavin liaised with **HMRC** of behalf of the client to argue the commerciality of the business' operations and evidence its **VAT exemptions**.



As a result, our client avoided a significant VAT assessment and penalty, and also received a **comprehensive evaluation** of their business from a tax and VAT perspective to aid the implementation of a **tax efficient structure**.



Get in touch

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Background

Our clients business was split between 2 entities, neither of which was registered for VAT and appropriate VAT advice had not been taken. One was a sole proprietor business providing tuition, whilst the other was a limited company which sold associated equipment and materials.

HMRC had investigated and directed a back dated VAT registration (going back over 3 years) on the basis that the business had been split artificially to avoid either business registering for VAT.

How we helped

We spent significant time with the business to ensure that we fully understood the commerciality of its operations. We then reviewed the activities and all income generated across both businesses and established that a significant proportion of the income was in the sole proprietor business which involved the tuition related services. We believed VAT exemption could be obtained for these activities and with it being exempt income, this would not count when calculating taxable turnover for the purpose of VAT registration.

The result

By applying both UK and EU case law, we were able to successfully persuade HMRC that the services relating to tuition were supplied by the business owner acting as a sole proprietor and that they were of a subject which was ordinarily taught in schools. When the remaining 'vatable' income for both entities were combined, the total was well below the VAT registration threshold, so there was no requirement for either business to be registered for VAT.

As a result, our client avoided a significant VAT bill and penalty, and consequentially we also conducted a wider evaluation of the business from a VAT and other tax perspective to ensure it is operating under a tax efficient structure going forward.



GET IN TOUCH

Gavin West is Smith Cooper's Head of VAT and Indirect Taxes and has extensive experience dealing with VAT and other indirect tax issues from all perspectives. From compliance reporting and in-depth process reviews, to general consultancy and advice on transactions, Gavin and the wider VAT team provide bespoke services, tailored to meet individual requirements.

If you would like to get in touch with Gavin, please see his contact details below:

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