



## NEWSLETTER

### HMRC VAT probe amasses £3.9bn extra VAT from SMEs



HMRC has increased VAT gained from small businesses by 10% in the past year. The record £3.9 billion was amassed as a result of compliance investigations according to figures released by accountancy firm UHY Hacker Young.

Additional VAT gained by HMRC's local offices has now almost doubled in three years increasing from £2.2 billion in the 2010/11 tax year.

In an effort to boost its tax receipts HMRC has become increasingly aggressive in challenging the VAT arrangement of small businesses.

It has been reported that organisations such as sports clubs, financial advisors and property developments companies have been targeted by HMRC to either challenge long standing VAT arrangements or to reclaim VAT in what some see as an unrealistic burden on small businesses.

A vast number of small businesses are unable to afford what can be a drawn out challenge to HMRC's demands for extra VAT. Despite this the tax authority has had a mixed response when forced to argue its case in court.

In July 2104 HMRC failed to slash the amount of VAT claimed back by self-storage businesses after Lok'n Store successfully argued in court that it should be able to reclaim 99.9% of the VAT it pays, the percentage of its floor space that is used for storage.

However in October HMRC announced its intention to ignore this ruling not just when VAT is being reclaimed by other self-storage businesses, but also VAT cases in general, a move criticised by the tax profession.

In another case which surfaced last year HMRC argued that online glasses sales through Glasses Direct were not accompanied by 'medical dispensing services' unlike sales through a bricks and mortar shop. HMRC said this meant Glasses Direct were liable to pay VAT on the full value of the goods without any exemptions, the first-tier tax tribunal disagreed.

Simon Newark, a partner at UHY Hacker Young, said: "HMRC has taken an increasingly hard line over the last year in its attempts to increase tax receipts, so more and more small businesses in particular are finding themselves facing investigation over VAT arrangements that have long been accepted by the tax authority."

"Unfortunately, the law is heavily weighted in HMRC's favour. Once they make a decision it is irrelevant if the decision is right, wrong or even unlawful. Unless the taxpayer challenges it, the decision will be enforced by the full might of the State with bailiffs if necessary."

*Cont...*



Season's Greetings from

**FOCUS INSOLVENCY  
GROUP**

**Wishing a very Merry Christmas  
and a Prosperous New Year to all  
our Friends and Partners.**

**Thank you for your support during  
2014 and we look forward to  
working with you again in 2015.**



## Here are just a few reasons we should be your first choice for debt and cash flow problems

- **Service – not only a great service, but an unrivalled one. Qualified and experienced staff with a 'can do' approach to getting the job done. A single point of contact for both introducer and client**
- **Cost Effective – higher targeted performance, free meetings and fewer costs**
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- **Full range of insolvency and restructuring solutions available**
- **Big enough to cope with the large jobs but small enough to care for everyone**
- **Experienced and qualified board of directors who care passionately about what we do and how we do it**
- **Focus Business Club – regular corporate events, newsletters, updates and blogs**

"The cost of challenging demands for extra VAT through the courts can be prohibitive for a lot of small businesses, and many will simply decide it's simpler and more cost-effective to just write a cheque to HMRC, even if they believe the demands are incorrect."

It has appeared that some SMEs believe they are being treated as 'second class citizens' when it comes to VAT disputes. This is due to larger businesses having their tax affairs handled by HMRC's specialist customer relationship managers while SME's 'run the gauntlet of HMRC's local offices and the much-maligned National Advice Service helpline and Written Enquires Office.'

## **Bank of England claim homeowners could cope with rate rise**

Just 4% of homeowners would need to take action if interest rates rose to 2.5% from their current historic low of 0.5% according to the Bank of England's annual survey of household finances.

However this calculation assumes a 10% rise in household incomes.

Without the income increase the Bank claims that 37% more mortgagors would need to react in response to a rate rise.

In its report the Bank of England states, "These results do not imply that increases in interest rates from their currently

historically low level would have unusually large effects on household spending,"

The figures also show that an increase in interest rates would increase the number of household with repayments greater than 40% of their gross income putting them at greater risk of falling into arrears.

If rates increased to 2.5% then the number of people struggling to afford repayments on their home loans would increase by a third to 480,000 assuming incomes also increase by 10%. The figure increases dramatically to 660,000 if pay stays the same however.

Despite this the Bank has stated that it expects the number of people falling into arrears on their mortgage should be fewer than in 2007.

It also estimates that the number would fail to top that of the early 1990's when the housing market suffered its biggest crash since World War Two.

The Bank has been quick to point out in its latest inflation report that when an interest rate rise does occur, it is likely to be gradual.

## **Contact Focus Insolvency Group**

We know that the approaching few months are some of the busiest in the financial calendar.

With this in mind we'd like to take this early opportunity to remind you that we are here to help should you discover that one of your clients requires debt advice.

Get ahead of the New Year rush by encouraging your clients to discuss any concerns they may be having before it's too late.

If any of your clients have been affected by the stories in our newsletter or need advice on any other matters, please feel free to contact us on 01257 257030 or email [a.fisher@focusinsolvencygroup.co.uk](mailto:a.fisher@focusinsolvencygroup.co.uk)

**"We pride ourselves on being the experts of choice for anyone struggling in business or with debt."**

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