

Good Tax Housekeeping and HMRC Resolution

Good Tax Housekeeping

Optical Confederation members are advised that they should regularly review their accounting practices to ensure they are paying the appropriate level of tax.

Why is this necessary?

For VAT accounting purposes many practices operate what is known as Full Cost Apportionment (FCA) with the agreement of HMRC. Most of these have a written agreement with HMRC stipulating the basis on which they can operate FCA and such agreements usually require a recalculation of FCA

- after a prescribed period of time
- or where there is a material change to the business.

Practices should regularly review (usually annually) their letters of agreement with HMRC to check whether they are required to undertake new calculations to ascertain the level of exemption to apply to the sale of dispensed optical appliances.

Impact of VAT Rise in January 2011

Members are reminded that the increase in the VAT rate in 2011 will have impacted on the cost of goods in the FCA calculation by decreasing the exemption percentage and increasing the taxable percentage in relation to the dispensing of optical appliances.

Contact Lens Sales

Practices should also be reviewing the sale of contact lenses as

- the sale of lenses without any professional service is a supply of goods subject to VAT (currently at 20%)
- whereas the supply of contact lenses (usually on an annual contract which incorporates a professional service) is the supply of both goods and services, the consideration for which needs to be apportioned to reflect the value of the goods and services supplied.

Partial Exemption and Small Businesses

Partial exemption (PE) applies to businesses which make both taxable and exempt supplies.

Normally, input tax (which is attributed to the making of exempt supplies, known as 'Exempt Input Tax') is treated as non-recoverable. Exempt input is derived from

- the purchase of goods and services which can be directly attributed to the making of exempt supplies (eg sight test equipment, unless of course the practice provides DVLA sight tests, in which case the VAT on the sight test equipment is treated as non-attributable and treated in the same way as business overheads) and
- the VAT incurred on the cost of goods and services which cannot be directly attributed to the making of taxable or exempt supplies (business overheads).

To determine the amount of VAT incurred on business overheads and similar costs which can be attributed to the making of taxable and exempt supplies most businesses will be required to use what is known as the 'Standard Method'.

As mentioned above Exempt Input Tax is potentially irrecoverable but there are de minimis limits which allow a business to recover this. The level is currently £7500 per annum of Exempt Input Tax. Members are reminded that any amount in excess of this limit results in a disallowance of all the Exempt Input Tax.

Historically a lot of smaller practices have ignored the need to undertake a partial exemption calculation on the basis that they consider they are de minimis. However, with the increase in the VAT rate to 20% plus the increase in the cost of goods and services through inflation, more and more small practices are exceeding the de minimis limit and should not be recovering any Exempt Input Tax.

Small practices should ensure that they undertake the partial exemption calculations required in order that they can satisfy themselves and HMRC that they remain de minimis and therefore able to recover all of their Exempt Input Tax. Failure to do this can lead to the imposition of penalties by HMRC.

HMRC Resolution by Mediation

HMRC is now using Alternative Dispute Resolution (ADR) which provides small and medium sized (SME) businesses with an alternative method of resolving tax disputes, without the need to appeal the matter to a Tribunal or Court of Law.

ADR involves the appointment of an independent person from HMRC, who has not been involved in the case before, as a 'facilitator'. The facilitator will then work with both the business and HMRC case owner to try to broker an agreement between them.

ADR is available to businesses where a tax issue is in dispute. This applies whether or not an appealable tax decision or assessment has been made by HMRC.

Entering into the ADR process does not affect the business's existing review and appeal rights. However, any practice considering entering into ADR should enlist the help of a specialist advisor in the particular area of dispute to ensure that its position is accurately represented through the process.

If any members are involved in mediation with HMRC, we would be grateful if you could please let your Optical Confederation representative body know:

ABDO Members: Katie Docker kdocker@abdo.org.uk

AOP Members: Alan Lester alanlester@aop.org.uk

FODO Members: Mark Nevin mark@fodo.com

Optical Confederation

September 2012