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Have you carried out your annual VAT recovery rate adjustment review?

A reminder for all businesses involved in both VAT exempt and VAT taxable activities with a 31 December year end and filing VAT returns on a bi-monthly basis, that your annual VAT recovery rate adjustment for 2017 should, at the latest, be included in the May/June 2018 VAT return, which will be due by 23 July 2018.

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Typically businesses which carry out both VAT taxable and VAT exempt activities are entitled to full recovery on costs directly attributable to their VATable activities, no VAT recovery on costs directly attributable to their VAT exempt activities and partial VAT recovery on general overhead costs which relate to both VAT taxable and VAT exempt activities.

A number of different types of methodologies have traditionally being used by businesses to calculate a partial general overhead VAT recovery rate including, turnover, staff usage, floor area (for property) etc. As a basic example, a business with 80% VATable activities and 20% exempt activities will be entitled to recover 80% of the VAT incurred on its general overhead costs.

For those businesses which applied an "estimated" VAT recovery rate throughout 2017 (usually the prior year rate), the actual VAT recovery rate for 2017 must be calculated and any resultant adjustment arising included in the May/June 2018 VAT return. Where the actual VAT recovery rate for 2017 is less than an estimated rate used throughout 2017 failure to submit a VAT adjustment by either 19 or 23 July of this year (if you file on ROS) will result in an exposure, including interest and penalties.

This exercise is not only applicable to those in the financial services sector (including those involved in banking, insurance/reinsurance, investment funds) but also applies to those involved in a mix of VATable and exempt business

activities, such as medical / healthcare, property letting, educational activities, local authorities, etc.

Businesses should be aware that changes introduced in 2016 make the turnover basis the standard basis for calculating a partial general overhead VAT recovery rate.

A turnover based methodology must be applied to calculate a partial general overhead VAT recovery rate unless the turnover basis does not correctly reflect the use of overhead costs by the business nor does it have due regard to the range of activities and supplies undertaken by the business.

This change means that taxpayers have to consider the turnover basis first and only then if it is not suitable, should they consider other methodologies for recovery more appropriate to their business such as floor space, staff usage, number of transactions etc. This is particularly relevant for business calculating their partial VAT recovery rate for the first time and those not applying a turnover based methodology.

Consideration should be given by businesses to reviewing the approach applied to calculate their VAT recovery entitlements in particular where the methodology applied has not been reviewed for a significant period of time or where there have been changes in business activities in order to ensure the methodology currently applied remains appropriate.

In addition, if you have recently commenced activities or are considering your VAT recovery position for the first time, KPMG can advise on how best to approach this.

This is not all bad news - KPMG have assisted many clients over the years achieve very significant immediate and long term savings, as a result of carrying out annual VAT recovery rate methodology reviews.

The following is an overview of the typical KPMG approach to reviewing or calculating a VAT recovery rate:

High level review	
1	Review current methodology
6	Advise on appropriate adjustment

Detailed review	
2	Review / test data
3	Assess current business model
4	Consider & design alternatives
5	Calculate actual rate
8	Document the processes & controls

Liaise with Revenue	
7	Liaise with Revenue to agree the methodology

If you would like to discuss the annual VAT adjustment or structuring a VAT recovery methodology please contact either Glenn Reynolds or Philip Nolan or Caitriona Shanahan or your usual KPMG Tax adviser.

Contact us

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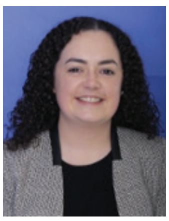

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