

# VAT - Common Pitfalls

This factsheet sets out a simple list of the common areas where we see mistakes made by clients when completing their VAT returns. It is not intended for the list to be exhaustive. It is no surprise that these are the areas VAT inspectors routinely check when undertaking a review visit.

## VAT not reclaimable on

- Business entertainment – *VAT on employee entertainment is recoverable*
- Non-business purchases
- Purchase of a motor car – *in normal circumstances. VAT on commercial vehicles is reclaimable*
- 50% of VAT on car leases – *50% of the VAT on the leasing charge is not claimable*
- Insurance – *the charge on insurance is Insurance Premium Tax ("IPT"). This is not VAT and is not reclaimable*

## No VAT to reclaim

A number of purchases do not carry VAT because they are either zero-rated, exempt, outside the scope of UK VAT or are provided by a non-VAT registered trader.

Typical items that are zero-rated or exempt include - stamps, train, air & bus tickets, on street car parking meters, food and refreshments, medical items, newspapers books and magazines and insurance.

## Private use

VAT on the private element of items which have a mixed business & private use is not reclaimable– *use a reasonable apportionment and only claim on the part used for business*

VAT on motor fuel used privately is not claimable – *an apportionment should be considered or there is the simplified car scale charge adjustment which may be made on the VAT return*

## Partial exemption

Where your business sells a mixture of goods or services that are a combination of standard/zero rated and exempt, then the potential complication of partial exemption is to be considered.

Basically, under those circumstances, VAT may be reclaimed on purchases directly attributable to standard/zero rated supplies, but not on those directly attributable to exempt supplies. VAT on non-attributable general expenditure is not claimable, subject to a *de minimus* limit under which all VAT on general expenditure is allowed. Detailed advice should be sought to operate this system correctly.

**This factsheet has been kept deliberately brief. Please contact us for detailed advice concerning your specific affairs.**