

## Contractors find VAT registration issue resolved

The [Value-Added Tax \(VAT\)](#) registration delays have been filling the tabloids for some time this year. But the issue has ceased to trouble contractors, now that the Revenue has worked out a solution allowing for VAT-only invoices.

### Hugely Increased Volume

Largely as a result of the [managed service company legislation](#), sources close to the Revenue say, we've seen huge increases in new company creation and of course with [VAT](#) registration. Since it is no longer possible for contractors to use providers who manage their companies for them, most contractors have simply switched to having their own [limited company](#)-- the solution that makes the most tax sense for contractors not caught by the [IR35 legislation](#).

But all this growth in numbers has generated two issues, actually, for HMRC:

- o Checking out who is seeking a VAT number, and
- o Coping with the hugely increased volume

### Quicker Registration

In fact, it has been taking up to 12 weeks to get VAT registration, as the Revenue itself states in a [notice on its Web site](#):

"In reality, most VAT 1's not needing amendment or query will be processed well within 12 weeks, and customers can help to speed the process by taking care to ensure that the form is completed fully and accurately, with explanations provided for anything which might be unclear."

“ In reality most VAT 1 forms not needing amendment or query will be processed well within 12 weeks ”

HMRC

### The Fraud Problem

HMRC is working to reduce the time taken to process VAT1's: the problem, as so often, is with those who abuse the system.

There has been a marked rise in VAT crime. What happens is that criminals set up companies and then claim all sorts of VAT refunds that they don't deserve. Some of the schemes are quite elaborate, so we cannot entirely blame HMRC for taking some extra time in checking out VAT registration candidates. Losses due to such fraud were estimated at £2-£3 billion in 2005/06 according to HMRC.

The schemes often involve fake European sales, and contractors should be aware that the system for claiming VAT from European purchases has become somewhat more complex--you need to state separately on your online VAT registration form what you buy or sell in Europe.

A new VAT 1 application form and guidance notes is due to be launched with an improved layout and clearer questions. It is hoped that this will help applicants to complete the form correctly and reduce general processing times.

### No VAT Number? No Problem

But the result of all this is that you may have to wait a long time before you get your VAT registration number. What do you do in the meantime?

As the Revenue points out, you should be aware that you are required to account for and pay any VAT due from the date you are liable to be registered, not just from the date you apply for registration or from when you receive your certificate.

Here's what you do: although you cannot charge VAT before you are registered or show VAT as a separate item on any invoices you issue, you can change your prices to include VAT. You can do this from the date you should be registered and before you receive your Certificate of Registration. Obviously you will need to explain this to the agency or client you work with!

You will need to explain to your customers that you will be sending them VAT invoices later. Once you have your registration number you should send them VAT-only invoices referring to the numbers on the invoices you've sent them before, i.e.

'for invoice no. 3, VAT included was (x) pounds.'

You can then include that VAT received on your quarterly VAT return. And so, all the fuss over late VAT registration can be forgotten.

“ Just include the VAT in your prices and invoice ”

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- [VAT Calculator](#)

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