

## Contractor limited company VAT inspections – preparation and process

An inspection by HMRC into any aspect of a **contractor limited company** can be time consuming, stressful and potentially very expensive. However if a contractor has stuck to the rules, prepares well and has professional assistance, the inspection should go smoothly.

Although HMRC does select candidates for a VAT inspection on a random basis, there can often be a reason that a contractor's limited company shows up on HMRC's radar and is targeted. This could be because the contractor has **filed a late VAT return**, or has unusual fluctuations in the amount of VAT they have paid or reclaimed. Advice on HMRC's website clearly states that businesses that have previously submitted late or incorrect VAT forms and payments will be inspected more often.

Contractors who have only claimed VAT on eligible business costs and have maintained comprehensive and accurate records should have nothing to be concerned about, as most VAT inspections are routine. In fact, it has been known for HMRC VAT inspectors to identify a business that has been overpaying and under claiming its VAT, and is therefore due a rebate!

### Organising the VAT inspection

HMRC inspectors are normally pretty good at giving contractors plenty of time to organise the logistics of a VAT inspection, especially as they appreciate most contractors' limited companies are run from home, and contractors tend to be out onsite with clients.

The contractor will usually get a phone call, and sometimes a letter saying an inspector would like to review the company's VAT records. Contractors should check with their accountant and confirm the best route forward.

Although inspectors normally prefer to visit a place of business, they understand this is a contractor's home and will usually agree to meet, at least initially, at the contractor's accountant's office.

### Records to prepare

Contractors must have all their financial records, available for review by the inspector, including:

All VAT records and returns

Annual accounts

Sales invoices to clients/agencies

Purchase invoices and receipts for expenses and business costs

Bank statements

VAT certificate

Any supporting documents, such as contracts and relevant correspondence.

The inspector normally asks to meet the person responsible for managing the VAT in the business. For many contractors, this may be their spouse, so it is important to ensure they are available.

### During the VAT inspection

Ideally, a contractor should have their professional adviser, which is usually their accountant, present at any initial meeting with an HMRC VAT inspector. Different inspectors vary in their style and some can be 'challenging' in the way they question a contractor. It may need a professional adviser to step in and qualify some responses.

The inspector may need to be guided through how a contractor's records are structured and, of course, full cooperation is most strongly advised. HMRC inspectors then have to spend a lot of time trawling through hard copy records and online accounts. Setting aside a comfortable workspace will make this process much easier for the inspector and for you.

Contractors should make themselves, their accountant and anyone else involved in the VAT side of the business available during the course of the inspection, to answer any questions the inspector may have.

### After the VAT inspection

According to HMRC's own guidance on the topic, an inspector's role is to ensure VAT is being collected and claimed correctly and compliantly, and to check

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a contractor limited company's VAT processes follow best practice.

At the end of the inspection, the inspector will always run through what they've done during the inspection, identify any concerns they might have and assess whether there have been any under or overpayments.

All this will be confirmed in writing, and a contractor will have the opportunity to appeal any decision if they feel they have a cause for concern.

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