
EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come into force on 1st April 2007, amend Part VIII and Part XIV of, and Schedule 1 to, the VAT Regulations 1995 (S.I. 1995/2518). Part VIII deals with cash accounting, Part XIV deals with input tax and partial exemption and Schedule 1 contains a number of prescribed forms.

Cash Accounting

Regulation 3 increases the maximum turnover limit for entrants to the VAT cash accounting scheme from £660,000 to £1,350,000. Regulation 4 increases the maximum turnover limit for those already operating the scheme from £825,000 to £1,600,000. Regulation 5 makes consequential amendments to the arrangements for bringing outstanding VAT into account when persons leave the cash accounting scheme voluntarily or because they reach the maximum turnover limit.

Input tax and partial exemption

Regulation 6 amends the definition of “exempt input tax” in regulation 99(1)(a) so that it excludes input tax allowable under regulation 102. Regulation 7 amends regulation 101 to specify the incidental supplies which are to be excluded from a standard method partial exemption calculation.

Regulation 8 amends regulation 102. It makes provision as to the ambit, form and content of a partial exemption special method directed or approved under that regulation and makes it clear that supplies of a description falling within regulation 101(3) are excluded whether they are made inside or outside the United Kingdom. It also provides with effect from 1st April 2007 for the Commissioners’ approval of a partial exemption special method to be subject to a declaration made by the taxable person in the prescribed form that the method will fairly and reasonably represent the extent to which goods or services are used by or are to be used by him in making taxable supplies. Where it appears to the Commissioners that such a declaration is incorrect, they may serve a notice to that effect, the consequence of which is in essence that the taxable person must follow the procedure laid down in regulation 102B(1) in relation to periods commencing on or after the date when the approved method took effect although the Commissioners may assess in relation to amounts due for past prescribed accounting periods. The new power to serve a notice is in addition to the Commissioners’ power to serve a notice under regulation 102A and any notice served under that regulation shall take priority in relation to the periods which it covers.

Regulation 9 amends regulation 102A to make it clear that the new power to serve a notice under regulation 102 does not negate the Commissioners’ powers to serve a notice under regulation 102A. Regulation 10 amends regulation 103 to make it clear that that regulation only applies to attribute input tax where the attribution is not expressly covered by a method approved or directed by the Commissioners under regulation 102. Regulation 11 adds a heading to regulation 103A.

New means of transport

Regulation 12 amends Schedule 1 by substituting Form No.13: new means of transport for removal from the UK to another member State of the European Community.

Full Regulatory Impact Assessments of the effects that regulations 3 to 5 (cash accounting) and regulations 6 to 11 (input tax and partial exemption) will have on the costs of business and the

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voluntary sector are available from H M Revenue and Customs, 100 Parliament Street, London SW1A 2BQ, or from www.hmrc.gov.uk, and are annexed to the Explanatory Memorandum which is available alongside the instrument on the OPSI website. A full Regulatory Impact Assessment has not been produced for regulation 12 of this instrument (new means of transport) as no impact on the private or voluntary sectors is foreseen.