

## **New rules regarding rounding on Partial Exemption standard method**

### **Partial Exemption Standard Method**

The Budget introduced a change to the standard method. Large companies will no longer be automatically able to “round up” their recovery rate. The new regulations state that:

“The percentage shall be rounded up-

(a) where in any prescribed accounting period or longer period which is applied, the amount of input tax which is available for attribution under paragraph 2(d) above prior to any such attribution being made does not amount to more than £400,000 per month on average, to the next whole number, and

(b) in any other case, to two decimal places.”

### **This raises two issues for businesses**

- 1) What is the level of my overhead VAT?
- 2) How can I seek to ensure that I only include residual VAT in the pro rata calculation?

One approach might be to look at total input tax and deduct VAT relating to goods for resale leaving a residual sum. A review of the annual accounts may also readily identify values of exempt income. This would confirm whether the disallowance was 0.99 percent or 0.01 percent. This percentage then being applied to the residual sum calculated, on average it would be expected that this would be 0.5 percent.

### **Impact**

At the lower end of the new regulations this would produce the following result:

Annual overhead VAT 4,800,000

Percentage disallowance 0.5 percent

VAT disallowed £24,000

This presents HMRC with a relatively straightforward assessment, which may be higher than appropriate if fully direct attribution were applied. There are clearly many companies with much greater levels of residual VAT based on such a simple calculation. In particular clients who have previously been seen as fully taxable as they round up from 99.XX percent to 100 percent.

*Please call 4 Eyes Ltd to discuss the potential impact on your business and your preferred approach. This may range from a manual exercise and discussion with HMRC to a re-programming of the accounting systems.*