



# VAT in the UK

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ISIS National Forum on Malaysia's Goods and Services Tax (GST)

Kuala Lumpur 26 February 2014

# VAT In the UK

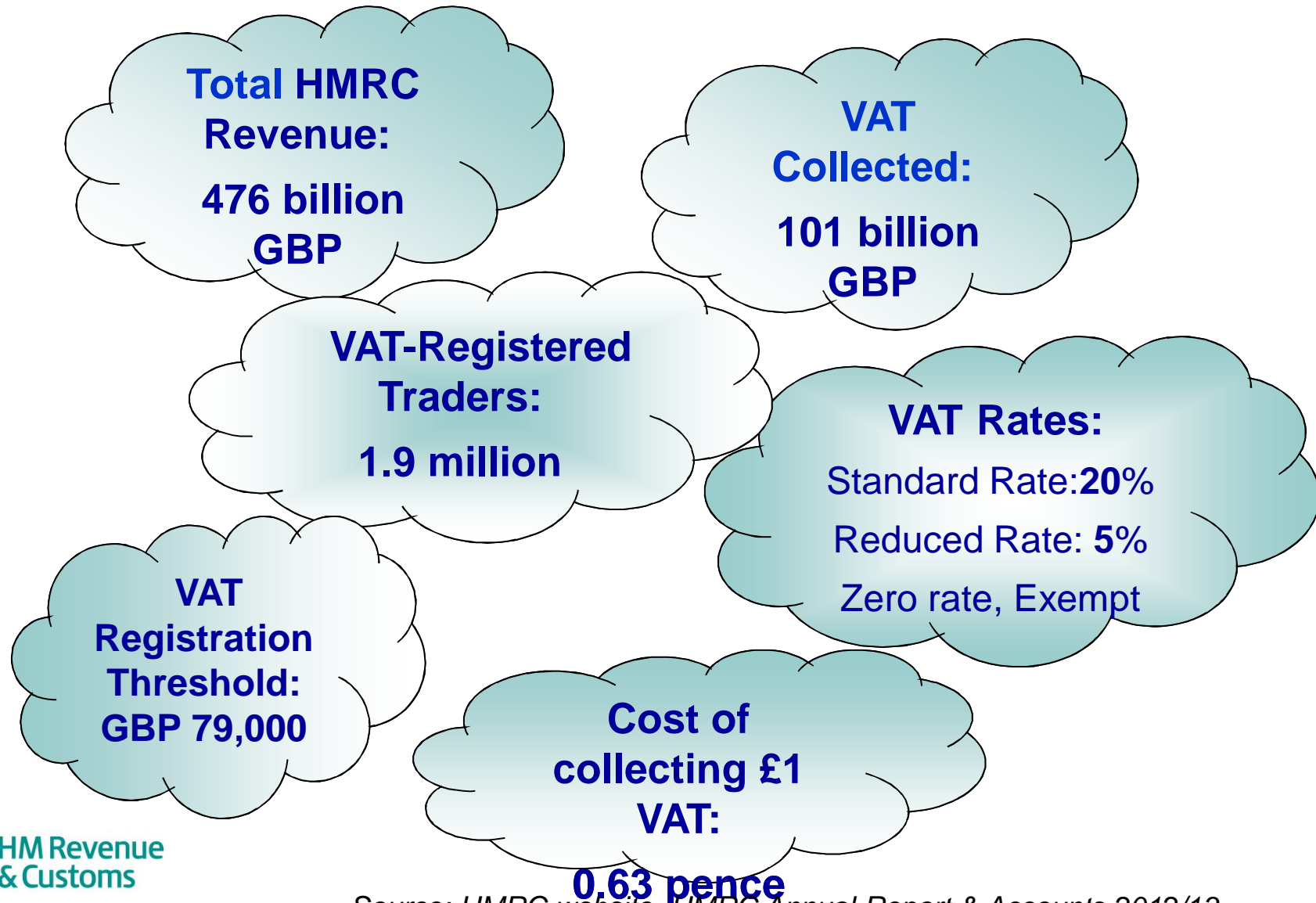
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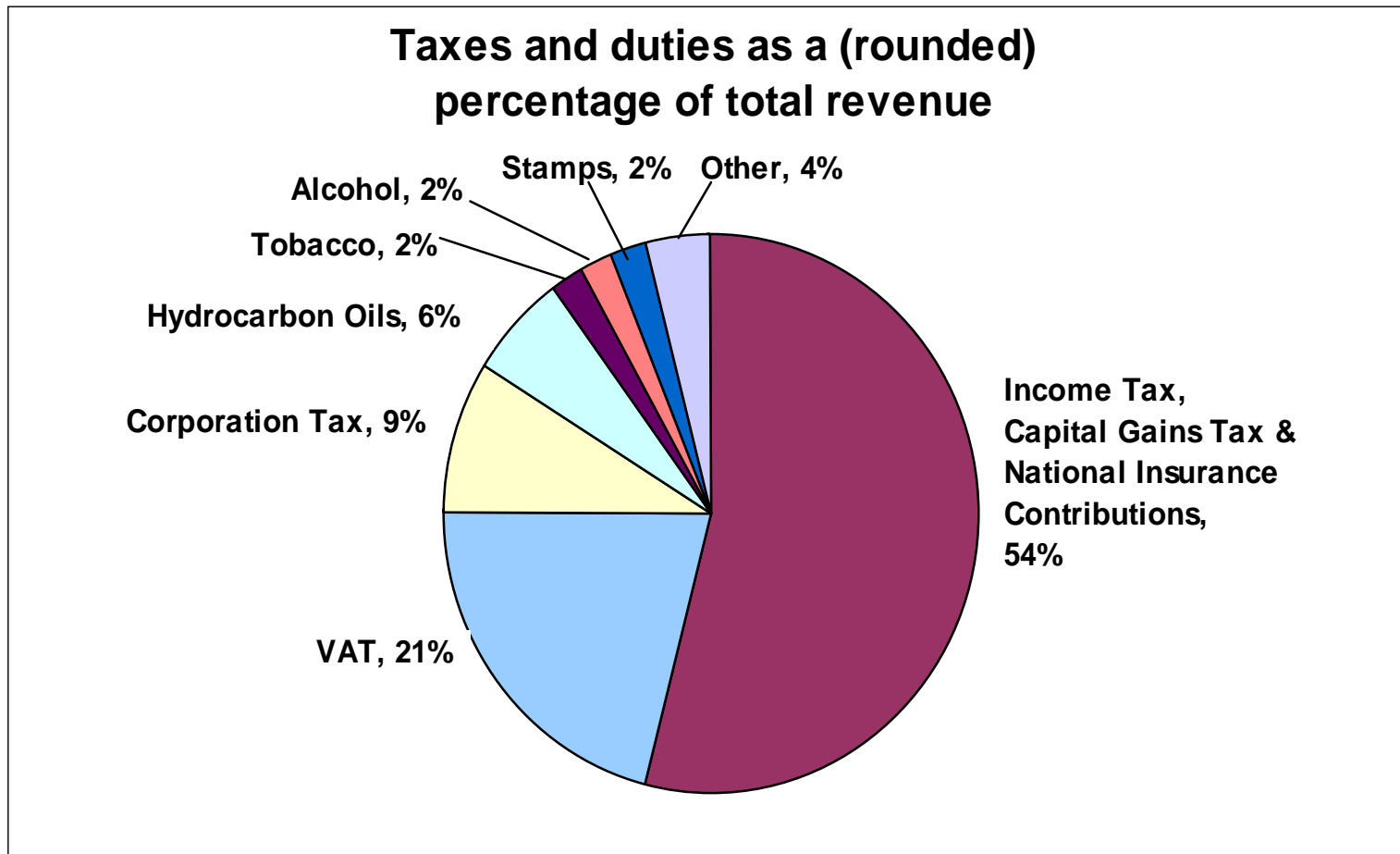
# 1 Background

- UK had sales tax for over 30 years
- UK introduced VAT when joining the European Union in 1973-it was a condition of EU membership
- UK operates the EU's 'invoice based' VAT system
- The EU legislation is the EU VAT Directive 2006/112/EU, which each Member State has implemented into its own national law-in UK VAT Act 1994
- EU VAT law can only be changed by unanimous agreement of the 28 Member States

## 2 UK VAT Facts and Figures



## 2 UK VAT Facts and Figures



Source: HMRC Tax & NIC Receipts Statistics, 2012/13

## 2 UK VAT Scope & Coverage

- Standard VAT Rate – Applies to most goods and services: covers approximately 60% of total expenditure
- Reduced VAT Rate – Applies to items such as domestic fuel and power, installation of energy-saving products, children's car seats covers less than 5% of total expenditure
- Zero (0%) VAT Rate – Applies to items such as food, books and newspapers, children's clothes and shoes, and public transport: covers approximately 15% of total expenditure
- Exemptions – Applies to the following social benefit or difficult to tax supplies: health, education, financial services, transport; covers 20% of total expenditure

## 2 UK VAT Scope & Coverage

- The UK's broad use of exemptions and multiple rates creates some definition and boundary issues
- However, zero rates help reduce VAT's regressive tendency
- Recent rapid growth in volume and value of digital services have introduced new policy and compliance challenges to which UK/EU officials are responding by developing EU VAT regime (e.g. 2015 place of supply changes, and e-book fiscal neutrality issue)
- As global volume of goods and services traded steadily increases, to embed 'taxation at destination' principle and reduce risk of double or no taxation, OECD producing International VAT Guidelines

### 3 VAT Revenues

VAT is a very important revenue raiser

- 2012/13 VAT revenue £101bn, making up 21% of total tax receipts
- UK standard rate is 20%, reduced rates of 5% and 0% (zero rate)
- VAT revenues are relatively predictable and stable (e.g. each percentage increase to standard VAT rate will yield around £5bn)
- VAT used as instrument of macroeconomic management:
  - 2008: VAT rate reduced to 15% to stimulate demand
  - 2010: stimulus withdrawn as planned and VAT rate returned to 17.5%
  - 2011: VAT rate raised to 20% as fiscal consolidation measure



# 3 VAT Revenues & Cost of Collection

## Source of VAT revenues

- 2/3 of VAT receipts from household consumption
- 1/3 VAT receipts from exempt sector (non recoverable input tax) such as government and financial services sector
- Large businesses contribute a significant amount to VAT revenues

## Cost of Collection

- Cost is 0.63p per £ collected (compares well with other taxes)
- This figure has been falling as HMRC introduces IT systems and reduces its overall running costs

## 4 VAT Gap – Significance

- Important to try and establish the potential VAT yield and then to calculate the gap between what should theoretically be collected and the actual VAT receipts
- VAT Gap is the difference between Net Theoretical Tax Liability (VTTL) and Actual VAT Receipts
- Also important to try and identify the causes of the VAT Gap so that the tax authority can put in place appropriate counter measures
- In the UK our investigations indicate that the VAT Gap is attributable to a range of behaviours including errors, debt, fraud and evasion.

## 4 VAT Gap – Estimating VAT losses

Two separate approaches to calculate VAT Gap:

### **Top-down**

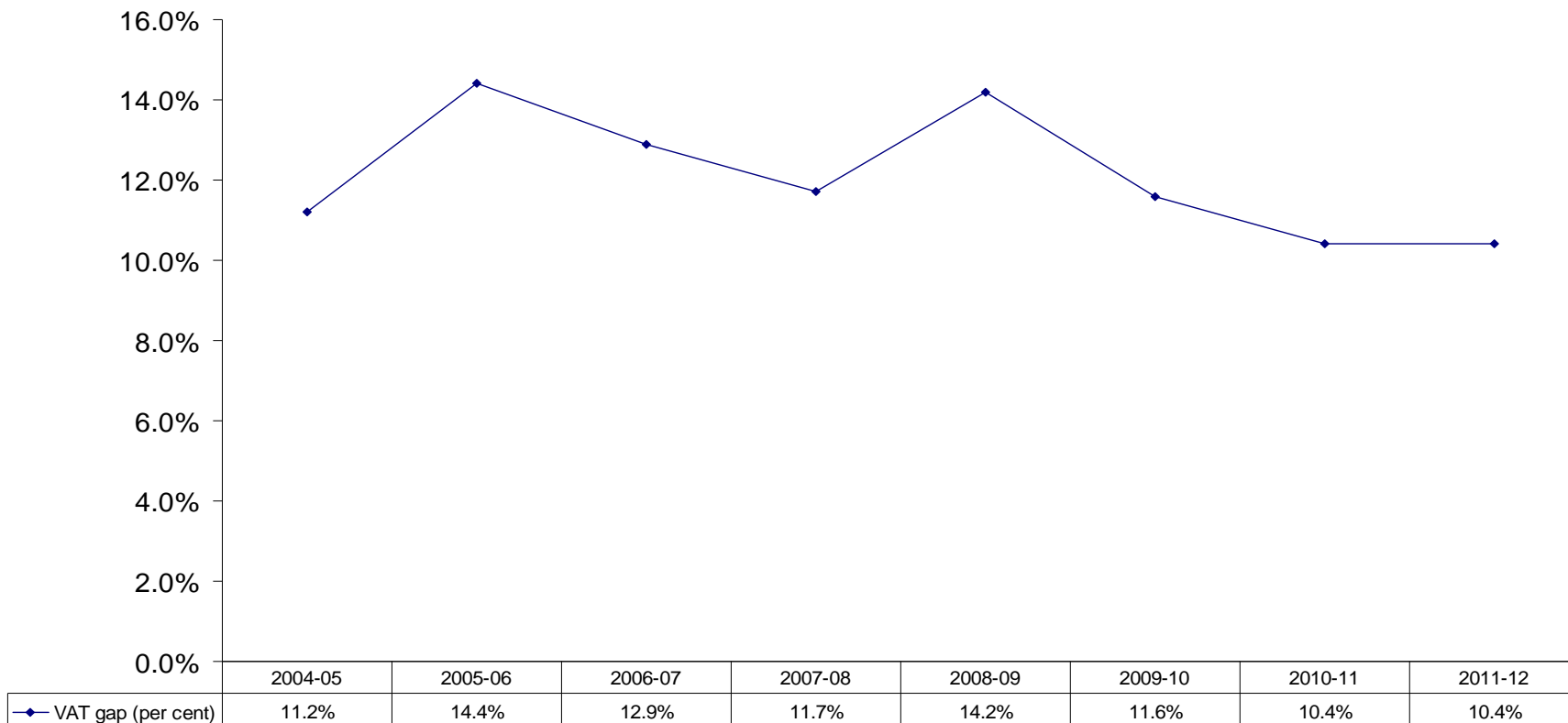
=Uses national accounts data to calculate the difference between actual VAT receipts and theoretical amount of VAT

### **Bottom-up**

=Uses operational and intelligence data to reconcile top-down approach and attribute losses to specific problem areas

# 4 VAT Gap – Trend

Time Series Of the VAT gap



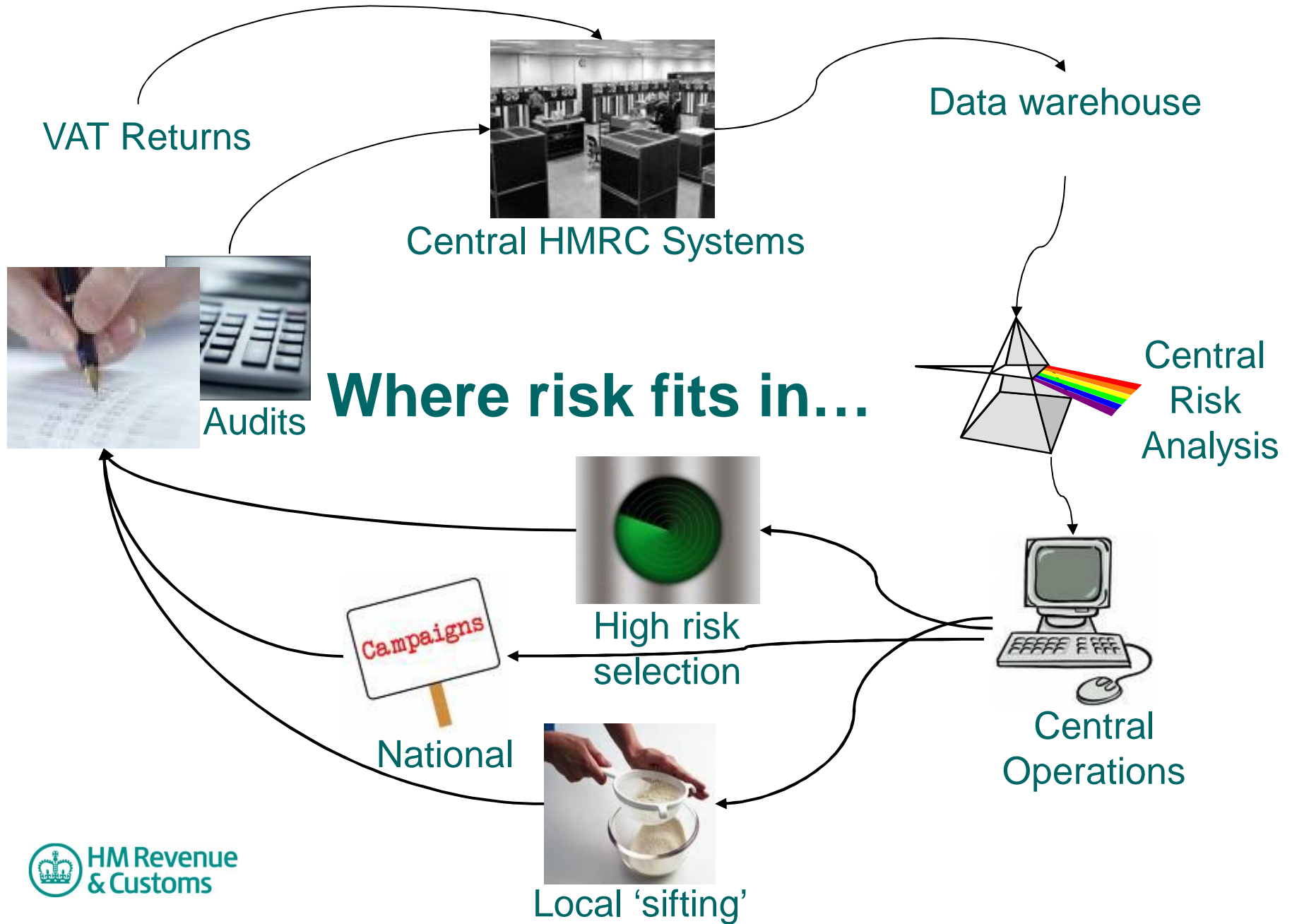
## 4 Taxpayer Compliance Strategy

- HMRC's overall approach to VAT taxpayer compliance is driven by a compliance risk pyramid
- We focus on high VAT yielding Large Businesses (annual turnover over £200m) who have Customer Relationship Managers (CRMs) to acquire detailed understanding of the business and how it operates
- We encourage, promote and recognise (through minimal audit interventions) voluntary compliance
- Our computerised risk modelling database draws on a wide range of data sources and is regularly updated
- We devote and direct most of our efforts at negligent or fraudulent taxpayers

## 4 Taxpayer Compliance Risk Assessment

- HMRC's risk models are built in the same way that banks risk score their customers





## 4 Taxpayer Compliance



Skilled resource deployment





## 4 VAT Fraud: Cross-Border Risk

- A major challenge faced by the UK was and is VAT Missing Trader Intra-Community (MTIC) fraud
- Orchestrated attack on the VAT system by organised criminals
- Involves contrived cross-border supply chains using apparently legitimate businesses
- It takes advantage of EU cross-border VAT rules and trade facilitation
- Estimated to cost the UK between £0.5bn and £1bn in 2011-12

## 4 VAT Fraud: Types of Goods/Services

- Goods most commonly associated with MTIC fraud were mobile phones and computer chips, but now fraud involves any highly traded goods or services e.g. electrical goods, soft drinks, metals and carbon credit certificates
- Involves obtaining a VAT registration number in the UK to purchase goods free from VAT in another EU Member State, selling them at a VAT-inclusive purchase price in the UK, and then ‘going missing’ or defaulting without paying the VAT due to HMRC (acquisition fraud)
- Carousel fraud – involves the same goods or services being traded around contrived supply chains on numerous occasions

## 4 VAT Fraud: Countermeasures

- Improved control and management of VAT Registration to prevent criminals obtaining VAT registration numbers
- Implement targeted 'Reverse charge' (self accounting) arrangements so the customer and not the supplier is responsible for paying the VAT to the authorities
- Create network of specialist anti-fraud investigators in every Member State
- Put in place arrangements for the rapid exchange of information on supplies and acquisitions
- Criminal investigation work to track organisers and money launderers

## 5 Business Facilitation

- The way in which the tax authority organises and administers the VAT system has a significant impact on how burdensome it is for businesses
- In the UK, to simplify the taxpayer compliance and administrative burden, particularly for small businesses we have:
  - a high VAT registration threshold (£79,000)
  - on-line VAT returns
  - simplified VAT Accounting Schemes for Small Businesses (e.g. Annual Accounting and Cash Accounting)

## 5 Business Facilitation

- We have an integrated (all taxes) ‘customer centric’ business strategy, which means we structure and organise taxpayer services in a way which meets their needs
- HMRC ‘Business Customer & Strategy’ Directorate is responsible for directing and managing engagement with taxpayers
- We provide extensive guidance and information about VAT regime. Our primary help and support to VAT traders is digital i.e. webinars and YouTube videos, as well as a VAT Help Line and a Written Enquiries Service
- We are also developing and implementing a Digital Services Strategy (e.g. Your Tax Account) to allow businesses to engage in a focused and meaningful way

## 6 Conclusions

- VAT is a major tax for the UK and its importance continues to grow
- It provides the government with a stable and reliable source of revenue
- We promote and facilitate Voluntary Compliance and make the VAT system it as simple and easy as possible for businesses to operate
- We have a Customer Centric business strategy, engage fully and openly with taxpayers so as to understand their issues and concerns and so they can understand ours
- We have developed and operate computerised taxpayer risk modelling and profiling systems and target our compliance resources according to risk



**Thank you for your attention**  
**Any questions?**

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