



Inter Company

When should you charge VAT?

The answer depends on whether you have made a Taxable Supply or not.

A vat-able inter-company charge would be where one company buys business services and goods from suppliers and shares them with another related company so for example the invoice might say:

Recharge from Company A to Company B

10% Insurance

5% Rent/Rates

8% Motor/Travel

12% Office Salaries

As long as the charges have a logical and reasonable basis for them then these costs can be recharged plus VAT (even if the original item such as insurance wasn't originally vat-able)

However, the following are not Taxable supplies for VAT:

1. Common Directors – Notice 700/34 (May 2012)
2. Joint Employment – Notice 700/34 (May 2012)
3. Paying a Bill on behalf of an associated business



Alternatively....

Alternatively you might consider forming a VAT Group so that you don't need to charge VAT on inter-company charges but this isn't always a practical solution as it means changing the VAT registration and doing a single return for all companies/businesses in the VAT group.

Are your businesses really separate?

HMRC have been updating their manuals (21/10/13).

The purpose of VATDSAG01050 Single Entity and Disaggregation Manual is to help you to determine

- whether two (or more) apparently separate businesses are, in reality, a single entity
- whether where two (or more) separate entities exist, they have been separated artificially.

Schedule 1,1A (2) of the VAT Act 1994 requires that, in determining whether any separation is artificial, due regard is had to the extent to which the different persons concerned are closely bound to one another by

- financial
- economic, and
- organisational links.

Make sure you get the VAT right on inter-company charges or you could face some nasty penalties

P 01242 679767

E enquiry@admaccountancy.co.uk
www.accountancy-cheltenham.co.uk