TAX SYSTEMS

AlphaVAT

VAT Calculation Options Guide

Contents

1. Introduction

About this guide

This document guides you through how to select the VAT calculation options for your entity's VAT Return, including:

- Using a pre-defined template
- The calculation options available
- Transaction data

Version control

This user guide was last updated as follows:

Date	Summary of changes
07/10/22	New template applied.

Technical support

We provide a technical support help desk for users requiring assistance. The help desk can be contacted by telephone between the hours of 9.00 am and 5.30 pm, Monday to Friday excluding public holidays.

If you require help or further information, please contact the support team on:		
UK	Tel: +44 (0) 1784 777 666	Email: support@taxsystems.com
Ireland	Tel: +353 (0) 1661 9976	Email: support@taxsystems.ie

*Please note: We recommend that you use the **E-mail Support** option from the **Help** menu if you need to share screenshots or other attachments directly with Support.*

2.   VAT calculation overview

Having selected AlphaVAT as your VAT Return calculation method, you will be taken to the VAT calculation options tab.

From here, you will be able to select the type of calculation you need to perform in order to prepare your entity's VAT Return. The options are displayed in the following three categories:

- **Choose template:** The AlphaVAT calculation method allows you to create a template based on your calculation requirements. Once you have saved a template, it will appear in the drop-down list and can be applied to an entity where the same criteria can be used. The default option is set to **None**.
- **Partial Exemption:** This allows you to choose the standard or special methods
- **Other:** This allows you to select the Nil Return option for entities where every box on the VAT Return will be zero
- **General:** This allows you to include provision for International and Domestic reverse charges in your VAT Return calculation

3. Choosing a template

When you use the AlphaVAT calculation method to set up an entity's calculation requirements for the first time, you will be given the option to create a template based on the calculation criteria you have selected. This template can then be applied to other entities or future obligations where the VAT calculation criteria is the same.

Using templates reduces the amount of time you need to set up an AlphaVAT calculation, since the template will store all of the data mappings, file mappings and filters that were previously set up.

The default selection is set to none. If you wish to apply a template, click on the **Choose template** drop-down list and select the **template** you wish to use.
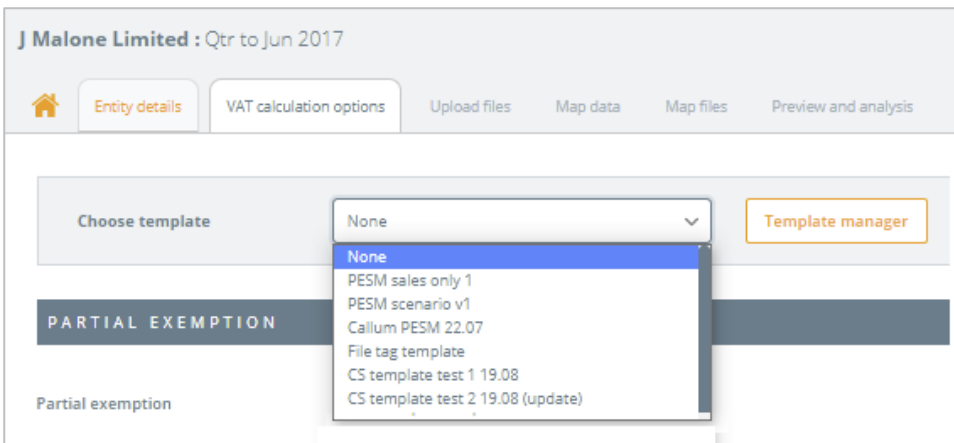
For more information on how to create a template, see the **Preview, analysis, and reports** guide.

4. Template manager

You can view a list of all templates available by clicking on the Template manager button. This will allow you to view the following details for each template and also gives you the option to archive a template you no longer need by clicking on the **orange X** next to it.

- Template name
- Created by
- Date created

To exit the Template manager, click on the **Close** button.

5.   Partial exemption options

This section offers the following options:

- **No:** This should be selected when no partial exemption applies to your entity
- **Standard method:** Use this option where standard method values-based recovery is relevant for a partially exempt entity
- **Special method:** Use this option where special method values-based recovery is relevant for a partially exempt entity.

Standard method

Use this option where standard method values-based recovery is relevant for a partially exempt entity. Setting this flag to **Yes** will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage in order for any transactions to be filtered into taxable, exempt, excluded and residual for the purposes of the partial exemption calculation.

Recovery of residual input VAT will be applied based on the proportion of taxable sales to total sales for the period. Upon running the calculation, the *Partial exemption recovery* report statement will be displayed to explain the recovery calculation that is performed by AlphaVAT.

Special method

Use this option where special method recovery is relevant for a partially exempt entity. After setting this flag to **Yes**, you must then specify whether the recovery method is a sectorised method.

Sectorised methods are those where the residual input tax is divided between the different areas of the business. Generally, these methods are used because the recovery of non-attributable input tax by reference to one calculation, via averaging, would not give a fair and reasonable result because the costs are used in each sector in different proportions.

Setting this flag to **Yes** will prompt AlphaVAT to present the **PESM builder** screen after you have clicked on the **Save and continue** button (See the **AlphaVAT PESM Builder Guide** for more information).

Partial exemption overview

Input VAT incurred by a VAT-registered business may only be recovered where the expense can be attributed to taxable supplies. Input VAT that relates to exempt supplies is not recoverable.

Where a business makes both taxable and exempt supplies, it is referred to as being partially exempt and an apportionment calculation is required in order to determine how much input VAT may be recovered.

There are two approaches to this calculation that can be taken: the standard method and special methods. In both cases, the first stage will be to determine whether any input VAT is directly attributable to either taxable or exempt supplies in which case input VAT will be either recoverable or irrecoverable in full.

Input VAT remaining after this direct attribution is referred to as residual, and the next stage is then to determine the percentage of this residual input VAT amount that may be recovered.

As VAT groups are treated as a single taxable person trading through its representative member, it will have only one partial exemption method for the whole group.

Standard method

Under the standard method, this percentage is calculated as the value of taxable supplies over total supplies (🔴 SI 1995/2518 reg 101).

Rounding

The recovery percentages calculated under the standard method must be rounded up to the next whole number unless you incur more than £400,000 of residual input tax each month on average in which case you must round to 2 decimal places.

Note that rounding up does not apply in certain circumstances for 'foreign' and 'specified' supplies.

The de minimis rule

Where exempt input tax is deemed as insignificant, all input tax suffered is deemed to be attributable to taxable supplies and so is fully recoverable. For this treatment to apply, the total value of exempt input tax must not:

- £625 per month on average, and

- 50% of total input tax in the relevant period

Total value of exempt input tax is input tax directly attributable to exempt supplies plus the proportion of residual input tax that is attributable to exempt supplies.

A simplified test was introduced from 1 April 2010 to save certain businesses the need to carry out a full partial exemption calculation each quarter to confirm that they are de minimis. For this treatment to apply, the following conditions must be met:

- Total exempt input tax is not more than £625 per month on average, and

- Total exempt input tax is not more than 50% of total input tax

Where in a VAT period a business passes the simplified test, it can treat itself as de minimis and provisionally recover input tax relating to exempt supplies.

Businesses must still review its de minimis status at the year-end as before and account for any over or under recovery of input tax as part of its annual adjustment. Note that for group registrations, the above limit applies to the group as a whole.

Special methods

Special methods are any method of recovery that has been agreed with HMRC that is not the standard method. Refer to VAT Notice 706 or HMRC manual PE30000 for further details on partial exemption.

Data requirements

AlphaVAT requires details of the taxable, exempt, excluded and residual transactions in order to be able to perform the partial exemption calculation correctly.

In the case of outputs this is a matter of fact based on the nature of the transaction, for inputs however this is an allocation process based on use.

Where partial exemption is relevant, the transaction data calculation blocks referred to in the transaction data help page, are further broken out into the following:

Calculation name	Description of treatment of the supply and effect on the VAT Return
Output VAT	
Taxable	Supplies of goods and services that are taxable for the purposes of VAT, including supplies that are charged at either the reduced or zero rate.
Exempt	Supplies of goods and services that are exempt from VAT. Refer to VAT rates on different goods and services for further details on VAT-exempt categories of supplies.
Excluded	Supplies of goods and services that are to be excluded from the partial exemption standard method calculation on the basis of being distortive, irrespective of whether they are taxable or exempt. The main examples of such supplies are capital goods or incidental costs. Refer to VAT Notice 706 section 4.8, SI 1995/2518 reg 101(3) or PE32000 for further details on supplies that should be excluded from the standard method.
Input VAT	
Taxable	Purchases of goods and services that are directly attributable to taxable supplies. Under SI 1995/2518 reg 101(2)(b) this is input VAT on goods and services that are used "exclusively in making taxable supplies", and under reg 101(2)(c) no input VAT that relates exclusively to exempt supplies or to carrying on any activity other than making taxable supplies should be included. Input VAT that is directly attributable to taxable supplies is recoverable in full.
Exempt	Purchases of goods and services that are directly attributable to exempt supplies. Input VAT that is directly attributable to exempt supplies is irrecoverable in full.
Residual	Purchases of goods and services that are not directly attributable to either taxable or exempt supplies. Input VAT is recoverable in part.

6.   Other options

Nil return

Use this option where you wish to submit a nil return for the entity, whereby every box on the VAT Return will be zero. Upon confirming this selection, AlphaVAT will bypass the normal calculation process of uploading and mapping your data, and take you directly to the final VAT Return, thereby expediting the submission process.

7.   General options

This section offers the following options.

Northern Ireland

Use this option where transitions have been made in Northern Ireland.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage for any transactions to be filtered into acquisitions, distance sales, and dispatches to calculate and populate the Northern Ireland specific parts of the VAT return.

International

Use this option where transitions have been made with countries other than the UK and Northern Ireland.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage for any transactions to be filtered into imports and exports to calculate and populate the overseas parts of the VAT return.

Reverse charge

Use this option where goods and services have been purchased from suppliers located outside the UK but VAT has to be self-accounted for by the customer.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage, for any transactions to be filtered into the reverse charge for the purposes of self-accounting for VAT.

Domestic reverse charge

Use this option where goods and services have been purchased from suppliers located in the UK, but VAT has to be self-accounted for by the customer.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage, for any transactions to be filtered into the Domestic reverse charge for the purposes of self-accounting for VAT.

Postponed VAT accounting

Use this option where imports are accounted for through postponed VAT accounting.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage, for any transactions to be filtered into the postponed VAT accounting for the purposes of self-accounting for VAT.

8.   Transaction data

The boxes on the VAT Return are primarily driven from the details of sales and purchase transactions undertaken by the business that fall within the return period. The total amount of output VAT collected by the business on sales is compared to the total amount of input VAT incurred in order to arrive at the net payment or repayment of VAT required.

Details of these transactions will typically be exported from an accounting system, and rules apply as to which types of transactions are included on the VAT Return and in which return period. Certain categories of transactions are subject to specific treatment in respect of the boxes used on the VAT Return. AlphaVAT presents calculation blocks for the following:

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Output VAT		
Sales	1 & 6	General sales of goods and services subject to VAT. The net value of the supply is returned in box 6 of the VAT Return, and output VAT is returned in box 1.
Exports	6	Goods supplied to customers located outside of the EU. As VAT is intended to be a tax levied on goods and services consumed in the EU, such supplies should be zero-rated provided that the relevant conditions have been met. The conditions relate to obtaining appropriate evidence, within a specified time limit, that the supply is a genuine export and so is entitled to be zero-rated. Where the conditions upon such a supply are not met, VAT should be accounted for under the normal rules. Refer to VAT Notice 703 for further details on exports. The net value of the supply is returned in box 6 of the VAT Return. The supply will normally be zero-rated and so VAT would not be relevant, but where VAT was charged this will be returned in box 1.
Distance sales	1 & 6	Goods supplied to customers located in another EU member state who are not VAT-registered. The basic rule is that such supplies are accounted for as normal sales in the member state from which the goods are dispatched. However, each EU member state applies an annual distance selling threshold; where the value of supplies to a member state within the preceding 12 months exceeds the relevant threshold, the supplier will be obliged to register for VAT in that member state. The place of supply then moves to the member state of arrival. Refer to VAT Notice 725 section 6 for further details on distance selling. The net value of the supply is returned in box 6 of the VAT Return, and output VAT is returned in box 1.

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Output VAT (cont'd)		
Dispatches	6 & 8	Goods supplied to VAT-registered businesses located in another EU member state. As a simplification measure, VAT is self-accounted for by the customer; the customer acts as both the supplier and the recipient (refer to Acquisitions below).
		Such supplies should therefore be zero-rated provided that the relevant conditions have been met. The conditions include obtaining the VAT registration number of the recipient, and obtaining evidence, within a specified time limit, that the goods have been removed from the UK and transported to another EU member state.
		Where the conditions upon such a supply are not met, VAT should be accounted for under the normal rules. Refer to VAT Notice 725 section 4 for further details on dispatches.
		The net value of the supply is returned in box 6 of the VAT Return and also in box 8. The supply will normally be zero-rated and so VAT would not be relevant, but where VAT was charged this will be returned in box 1.
Input VAT		
Purchases	4 & 7	General purchases of goods and services subject to VAT. The net value of the supply is returned in box 7 of the VAT Return, and input VAT is returned in box 4 subject to partial exemption recovery.
Imports	4 & 7	Goods purchased from suppliers located outside of the EU. Import VAT will be charged by customs in order for the goods to be cleared at the border.
		Import VAT is not collected through the VAT Return process, however it can be recovered on the VAT Return subject to a form C79 being held as evidence of payment. Refer to VAT Notice 702 for further details on imports.
		The net value of the supply is returned in box 7 of the VAT Return, and input VAT is returned in box 4 subject to partial exemption recovery.

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Input VAT		
Acquisitions	2, 4, 7, & 9	Goods purchased from VAT-registered businesses located in another EU member state. As a simplification measure, VAT is self-accounted for by the customer; the customer acts as both the supplier and the recipient (refer to Dispatches above). Acquisition tax is accounted for at the rate applicable to the goods under the VAT rules in the member state of arrival, i.e. at the rate which would be applicable on an identical supply within the UK, which may be zero or exempt. Refer to VAT Notice 725 section 7 for further details on acquisitions. The net value of the supply is returned in box 7 of the VAT Return and also in box 9. The self-accounted output VAT is returned in box 2, and may be recovered in box 4 subject to partial exemption recovery.
Reverse charge	1, 4, 6, & 7	Services received from suppliers located outside of the UK. As a simplification and anti-fraud measure, VAT is self-accounted for by the customer; the customer acts as both the supplier and the recipient. Tax is accounted for at the rate applicable to the services under the UK VAT rules, i.e. at the rate which would be applicable on an identical supply within the UK, which may be zero or exempt. Refer to VAT Notice 741A section 5 for further details on reverse charge. The net value of the supply is returned in box 6 of the VAT Return and also in box 7. The self-accounted output VAT is returned in box 1, and may be recovered in box 4 subject to partial exemption recovery.
Domestic reverse charge	1, 4, & 7	Specified goods and services purchased from suppliers located in the UK. As an anti-fraud measure, VAT is self-accounted for by the customer. The supplier should not chargeoutput VAT. Specified goods comprise mobile phones, computer chips, and wholesale gas and electricity, whilst specified services comprise emission allowances, wholesale telecommunications, and (from 1 March 2021) certain building and construction services. Refer to VAT Notice 735 for further details on domestic reverse charge. The net value of the supply is returned in box 7 of the VAT Return. The self-accounted output VAT is returned in box 1, and may be recovered in box 4 subject to partial exemption on recovery. Note that in contrast to the cross-border reverse charge, the net value of the supply is accounted for by the supplier rather than the customer in box 6 of the VAT Return.

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Input VAT		
Postponed VAT acounting	1,4,& 7	From 1 January 2021, if your business is registered for VAT in the UK, you will be able to account for import VAT on your VAT Return for goods you import into: • Great Britain (England, Scotland and Wales) from anywhere outside the UK • Northern Ireland from ouside the UK and EU The net value of the supply is returned in box 7 of the VAT Return. The VAT due in this period on imports accounted for through potponed VAT accounting is returned in box 1, and may be recovered in box 4 subject to partial exemption on recovery.
Blocked inputs	7	Any purchases of goods and services for which input tax is blocked from being recovered under any circumstances. Examples include business entertaining, certain motor expenses, and private use or non-business expenditure. Refer to Reclaiming VAT for further details on blocked inputs. The net value of the supply is returned in box 7 of the VAT Return. Input VAT amounts will not form part of the VAT Return for the period. This calculation block should not be used for outputs.
General		
Excluded transactions	None	Any transactions which are to be excluded from the VAT Return for any reason. Net and VAT amounts will not form part of the VAT Return for the period. This calculation block may be used for either outputs or inputs.

Note that AlphaVAT does not provide a specific calculation block for cross-border supplies of services. Such supplies to business customers are subject to VAT where the customer is based under the place of supply rules (refer to Reverse charge above) and so are outside the scope of UK VAT.

The net value of the supply is returned in box 6. For supplies to non-business customers the place of supply is where the supplier is located, irrespective of the location of the customer, and so VAT would be charged as normal. Refer to VAT Notice 741A section 6 for further details on the place of supply rules for services. The normal Sales calculation block should be used in both cases.

9.   Recovery rate override

AlphaVAT includes a mechanism whereby the recovery percentage may be overridden by the user, if needed for any reason. To do this, the **Partial exemption recovery override** calculation block should be used.

A CSV file should be created that includes a table with a single row (following a heading) in a single column with the rate required entered as a percentage, for example:

	A	B
1	Rate	
2	45.6789	
3		

This file should then be uploaded to AlphaVAT at the **Upload files** stage, and mapped to the Partial exemption recovery override calculation block at the **Map files** stage. At the **Map your data** stage, the *Rate* column should be used for the column heading. Uploading the file in this way will cause AlphaVAT to use the recovery percentage entered.

A special method calculation is also available based on a count of the number of taxable transactions over the total number of transactions. In order to apply this, take the same approach as above, but rather than including the percentage, enter the integer "**4**" in the source file. Then map this to the **Method** column heading.