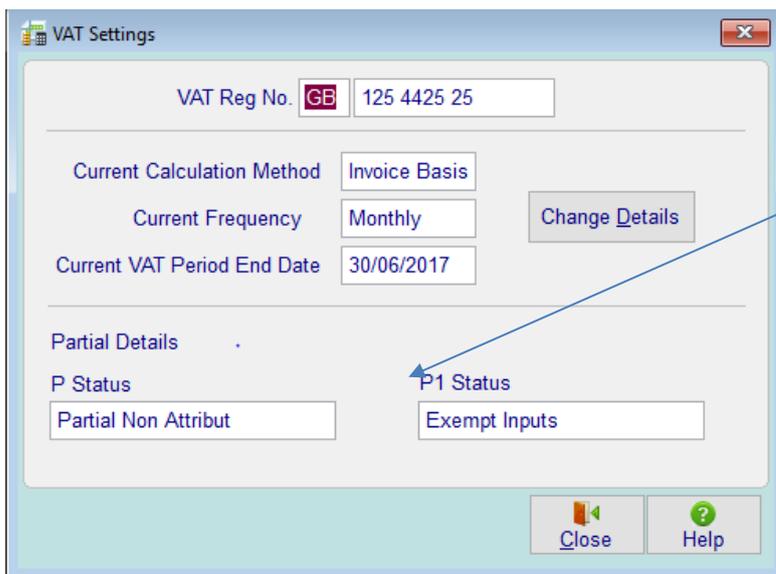


Partial Exemption VAT

The following guidance is based on best practice and methodology for using Farmplan software. This information is correct as of November 2019, for definitive guidance please refer to [HMRC](#) or your accountant.

A VAT registered business falls within the scope of partial exemption when it has supplies of both a taxable and an exempt nature. Output VAT cannot be charged on an exempt supply and equally any input VAT incurred directly in making the exempt supply, generally, cannot be recovered. NB any business operating a partially exempt VAT system should refer to the current documentation supplied by HMRC. To help distinguish the different inputs it is important to ensure the correct [VAT status](#) is applied to each heading code item entry.

To assist with Partial Exemption there are two additional VAT codes **P** and **P1** which, for VAT return purposes are treated in the same way as **S** or **Z**.



These may be renamed to meet your own requirements when recording partially exempt items as shown on the screen.

For example:

P may be allocated to all items where the inputs will go into the residual pot of non-attributable VAT that will have the claimable VAT % applied to it at the end of the VAT period.

P1 may be allocated to all items where the input relates only to exempt outputs and the VAT may not be recovered at all.

Ensure that all data entry is completed with 'itemised VAT' i.e. split between net and VAT.

The VAT Return Audit and the Items Inspector reports will show the non-attributable input VAT and the exempt input VAT entries showing heading code and amount.

Preparing the VAT return

At the end of the VAT period go to VAT Inspectors and report select VAT Audit Summary.

From the figures displayed here, the *de minimis* calculation can be applied and if necessary, the claimable % calculated. Remember to exclude any capital sales.

If necessary, the above figures may be analysed by using the Items Inspector. Filter the data for the current VAT period and the VAT status that you wish to audit.

To correct the VAT return

If you fall below the *de minimis* limit, you need take no further action as all the VAT is correct.

If you are above the *de minimis* limit and are unable to claim a proportion of the VAT, this must be removed from the VAT return and moved to the Balance Sheet to be used in the Annual Adjustment.

NB this method is provisional figure for the VAT Period which should be reviewed and adjusted as necessary annually. For more details refer to VAT Notice 706

The journal below shows an example of removing a figure from the VAT return and placing it on the Balance Sheet (Current Asset code) where it is used in the annual *de minimis* calculation.

- Ensure the date is in the correct VAT period.
- Credit Input VAT
- Debit a corresponding current asset code – perhaps set one up called non-recoverable VAT.

Alloc ~ Supp ~ Cust ~ Bank A/c	Description	VAT	Qty DR	Amount DR	Qty CR	Amount CR
Input VAT	Input VAT - vat over the monthly de-minimus.				0.000	839.71
Non Recoverable Vat / General 18	April Non Recoverable Vat	N	0.000	839.71		

Before the adjustment:

VAT Return Audit										Year Start: 6 April
VAT Period End Date: 30/04/18										
April 18										
Entry No.	Entry Type	Heading Code	VAT Type	Supplier/ Customer	Entry Date	Non VAT Amount	Value Of Outputs	Value Of Inputs	VAT Sales	VAT Purchase
1	S. Invoice	Residential Rents	E	David Jones	06/04/18		900.00			
2	S. Invoice	Residential Rents	E	Ian Smith	15/04/18		1200.00			
3	Direct Credit	Bank Interest	E	Lloyds Bank	30/04/18		2.75			
4	C/A Cheque	Bank Charges	E	Lloyds Bank	30/04/18			35.00		
5	P. Invoice	Chemicals	S	Agrii	30/04/18			812.50		162.50
6	P. Invoice	Property Reps	P1	Bobs Builders	07/04/18			4166.67		833.33
7	P. Invoice	Telephone	P	BT	15/04/18			62.50		12.50
8	C/A Receipt	Barley	Z	Frontier	30/04/18		2000.00			
Total						0.00		5076.67	0.00	1008.33
							4102.75			

After the adjustment:

VAT Return Audit										Year Start: 6 April
VAT Period End Date: 30/04/18										
Entry No.	Entry Type	Heading Code	VAT Type	Supplier/ Customer	Entry Date	Non VAT Amount	Value Of Outputs	Value Of Inputs	VAT Sales	VAT Purchase
1	S. Invoice	Residential Rents	E	David Jones	06/04/18		900.00			
2	S. Invoice	Residential Rents	E	Ian Smith	15/04/18		1200.00			
3	Direct Credit	Bank Interest	E	Lloyds Bank	30/04/18		2.75			
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6	P. Invoice	Property Reps	P1	Bobs Builders	07/04/18			4166.67		833.33
7	P. Invoice	Telephone	P	BT	15/04/18			62.50		12.50
8	C/A Receipt	Barley	Z	Frontier	30/04/18		2000.00			
9	Journal	Input VAT A/c			30/04/18					-839.71
9	Journal	Non Recoverable Va	N		30/04/18	839.71				
Total						839.71		5076.67	0.00	168.62
							4102.75			

If you have any queries regarding the operation of Partial VAT, you should contact your local Revenue & Customs office.