



TAX SYSTEMS



MTD Compliance Portal AlphaVAT Calculation Options Guide

Version 4.3



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1. Introduction

About this Guide

This document guides you through how to use AlphaVAT to select your calculation option for your entity's VAT Return, including:

- The calculation options
- Transaction data
- Partial exemption
- Recovery rate override

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
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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

Malone Plc : Qtr to Jul 2020

 Entity details


VAT calculation options

Upload files

Map data

Map files

Preview and analysis



Choose template

None

PARTIAL EXEMPTION

Partial exemption

☒ No

☐ Standard method

☐ Special method

OTHER

☐ Nil return

GENERAL

☐ International

☐ Domestic reverse charge

Cancel

Save and continue

3. VAT calculation options

The following options are available for you to select. Once you have made your choice click on the **Save and continue** button.

Partial exemption

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 partial exemption

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.

Please refer to the **Section 5**, for further details.

Special method partial exemption

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. Please refer to the **AlphaVAT PESM Guide** and the **AlphaVAT PESM Builder Guide** for further details.

Other - 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.

General

This section offers the following options:

International

Use this option where transitions have been made with countries in Europe and the rest of the world.

Selecting this option will prompt AlphaVAT to present additional calculation inputs at the **Map files** stage in order for any transactions to be filtered into imports, exports, acquisitions, distance sales, reverse charge and dispatches in order to calculate and populate the overseas parts of the VAT return.

Please refer to **Section 4**, for further details.

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 the additional calculation input at the **Map files** stage in order for any transactions to be filtered into the Domestic reverse charge for the purposes of self-accounting for VAT.

Please refer to **Section 4**, for further details.

Choose 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 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. The default selection is set to none. If you wish to apply a template, click on the drop-down list and select the template you wish to use.

4. 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	<p>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.</p> <p>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.</p> <p>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.</p>
Distance sales	1 & 6	<p>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.</p> <p>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.</p> <p>The net value of the supply is returned in box 6 of the VAT Return, and output VAT is returned in box 1.</p>

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Output VAT (cont'd)		
Dispatches	6 & 8	<p>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).</p> <p>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.</p> <p>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.</p> <p>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.</p>
Input VAT		
Purchases	4 & 7	<p>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.</p>
Imports	4 & 7	<p>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.</p> <p>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.</p> <p>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.</p>

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Input VAT		
Acquisitions	2, 4, 7, & 9	<p>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).</p> <p>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.</p> <p>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.</p>
Reverse charge	1, 4, 6, & 7	<p>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.</p> <p>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.</p>
Domestic reverse charge	1, 4, & 7	<p>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 charge output VAT. Specified goods comprise mobile phones, computer chips, and wholesale gas and electricity, whilst specified services comprise emission allowances, wholesale telecommunications, and (from 1 October 2019) certain building and construction services. Refer to VAT Notice 735 for further details on domestic reverse charge.</p> <p>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.</p>

Calculation name	Return boxes	Description of treatment of the supply and effect on the VAT Return
Input VAT		
Blocked inputs	7	<p>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.</p> <p>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.</p>
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.

5. Partial exemption

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.

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

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.

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 above 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	<p>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.</p> <p>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.</p>
Input VAT	
Taxable	<p>Purchases of goods and services that are directly attributable to taxable supplies.</p> <p>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.</p> <p>Input VAT that is directly attributable to taxable supplies is recoverable in full.</p>
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. Partial exemption recovery report

Upon running the calculation, the Partial exemption recovery report statement will be displayed to explain the recovery calculation that is performed:

- **Recovery percentage:** Taxable and total net amounts are calculated across the relevant output calculation blocks (Sales, Exports, Distance sales, and Dispatches) to arrive at the overall balance of taxable and total supplies. The recovery percentage is then derived as taxable sales over total sales.

This percentage is rounded up to two decimal places where residual input VAT exceeds £400,000 per month on average, or zero decimal places otherwise in accordance with

• [SI 1995/2518 reg 101\(5\)](#).

Note that self-supplies under the reverse charge procedure do not form part of supplies for the purposes of partial exemption (see to [VAT Notice 706 section 4.8](#)) and AlphaVAT will automatically apply this treatment.

- **Input VAT:** Taxable, exempt, residual and total VAT amounts are calculated across the relevant input calculation blocks (Purchases, Imports, Acquisitions, Reverse charge, Domestic reverse charge) to arrive at the overall balance of VAT amounts. Residual VAT is multiplied by the appropriate recovery percentage to determine the amount recoverable.
- **De minimis:** The simplified and standard de minimis tests will be applied by broadly comparing exempt input tax to £625 per month on average, and 50% of total input tax.
- **Total taxable input tax:** Where the de minimis does not apply, total taxable input tax is derived as the sum of taxable input VAT plus residual input VAT multiplied by the recovery percentage. Where the de minimis does apply, total taxable input tax is the sum of total input VAT.

7. 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		
4		

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.



TAX SYSTEMS
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