

## Case Study

# Resolving HMRC Investigations and Improving VAT Position

Our client, a UK construction company, were experiencing **cashflow challenges because of delayed customer payments** that were coinciding with their VAT payment obligations.

They were also facing a potentially serious COP9 VAT investigation from the UK Tax Authority, HM Revenue & Customs (HMRC).



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## The Fact Pattern

- UK based company
- VAT registered in the UK
- Working in the construction industry
- Supplies B2B building services to UK-based companies
- Issued standard-rated VAT invoices to its customers
- Now supplying their services at the zero rate of VAT (0%)

# The Challenge

Our challenge was to resolve our client's HMRC investigation and see whether we could improve their VAT position.

When we first met our client, a UK VAT registered company, they were supplying building services to the construction industry and were charging the standard rate of 20% VAT on all invoices they issued to their customers.

Despite the payment terms being 30 days from the invoice date, their customers were not paying invoices promptly and they often became the last supplier in the supply chain to get paid.

In being VAT registered, the company is required to file quarterly VAT Returns and pay their associated VAT liability at the same time. Unfortunately, their VAT liability had to be paid **before** they had received payment from their customers, which placed a considerable strain on their cashflow and also hampered their ability to grow and develop the business further.

The cashflow strain resulted in them unwisely deciding to **underpay** their VAT liability on a number of VAT Returns. Consequently, HMRC threatened to initiate a potentially serious COP9 investigation against the company.



# The Solution

The solution was for us to understand what our client was doing and how they were doing it, and to then work with HMRC to successfully resolve their issue.

Our first action was to establish our client's **Fact Pattern**, in other words, establishing what they were doing and how they were doing it.

During our Fact Pattern identification meeting with key people within the company, we immediately identified their services should have been zero-rated (0% VAT) and they should not have been charging 20% VAT.

This was previously unknown to our client because the VAT treatment applied to construction industry services can be very complex to determine and, as a result of our work, it fundamentally changed the landscape between them, their customers and HMRC.

**Once the Fact Pattern was established, we worked with HMRC on behalf of our client to:**

- Agree the VAT zero-rated classification of their services.
- Agree to the issuing of credit notes amounting to the VAT charged on all qualifying historic invoices issued by the company.
- Agree not to pay their next VAT return since the credit notes issued to customers would offset the VAT owed.
- Build a relationship with the specific tax official dealing with our client to keep HMRC interested in our case. This would ensure when their next VAT return was due the same tax official was available and could swiftly approve the refund.
- More generally rebuild the client's relationship and reputation with HMRC.
- Safeguard against future VAT reporting errors by implementing a structured training plan for key people in the company via an online VAT training platform.



# The Benefits

As a result of the solutions we applied to the challenges faced by the company, we helped our client reap considerable benefits, such as the following:

- Our client quickly received a much needed cash injection of £250,000 as a result of reclaiming overpaid VAT.
- By us engaging with HMRC on their behalf, our client avoided incurring any penalties and we completely removed the threat of a potentially serious COP9 investigation.
- The company went from historically being in a routine VAT payment position to now being in an ongoing VAT repayment position – every quarter they will now be reclaiming money from HMRC rather than paying it out.
- Updated and validated invoicing processes to ensure all future invoices for qualifying services were issued with zero-rated VAT.
- By applying the zero-rating to their invoices, this quickly increased the promptness of payments received from customers because it reduced their invoice amounts by the 20% VAT amount.
- Our client unlocked their cashflow potential, enabling them to invest in growing and developing their business again.



Quick £250,000 cash injection from reclaimed VAT



Moved to an ongoing quarterly VAT repayment position



Invoice amounts reduced by 20%

Contact us now for more information about how we can help you:



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