

VAT Refunds for Dealers Agreed with HMRC

A number of dealers have argued for a refund of VAT which they believed had been overpaid on dealer deposit contributions (DDC).

After a long period of HMRC resistance, we are delighted to report that HMRC have now agreed that these dealers have overpaid VAT and that this VAT will be refunded to them. Furthermore, HMRC have set out their position in a Business Brief and have invited claims from any dealership who has not yet claimed.

The issue concerns the VAT treatment of dealer deposit contributions, principally arising when a vehicle is sold on finance. A customer agrees the purchase price with the dealer including the amount of any deposit required by the finance company. The dealer may then make their own contribution towards the deposit and the VAT overdeclaration has arisen where the dealer accounts for VAT based on the headline price with the DDC treated as if it were cash received. In simple terms, dealers have been accounting for VAT on their own money.

HMRC have finally accepted that the DDC is a discount and that VAT is only due on the amounts actually received by the dealer, notwithstanding that a higher amount of VAT is shown on the invoice issued to the finance company.

Certain brands have been identified, where this treatment has been prevalent, but treating DDC as

cash has become more common across the industry. For example, some dealers have supported Motability sales in this way; others have used it as a marketing tool for second-hand sales.

We can assist any dealers who may be affected by reviewing sales documentation; then valuing and making claims. All claims are limited to 4-years and so prompt action is essential. We can also advise on how these contributions should be dealt with in the future.

HMRC have made it clear that any claims must be made as error corrections which means a requirement to notify HMRC separately rather than include an adjustment on a return. Those dealers who have always treated DDC as a discount are unaffected, but any who made a large internal correction without notifying HMRC may be exposed to attack. We will be happy to talk through the implications with any dealers for whom this is a concern.



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