



BUSINESS TAX CENTRE LIMITED

TAX GUIDANCE – INTRODUCTION TO VALUED ADDED TAX: VAT

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Introduction to VAT

Value Added Tax (VAT) is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK. It's also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

VAT is charged when a VAT-registered business sells to either another business or to a non-business customer.

When VAT-registered businesses buy goods or services they can generally reclaim the VAT they've paid.

There are three rates of VAT, depending on the goods or services the business provides. The rates are:

- standard – 17.5 per cent (15 per cent between 1 Dec 08 and 31 Dec 09)
- reduced - 5 per cent
- zero - 0 per cent

There are also some goods and services that are:

- exempt from VAT
- outside the UK VAT system altogether

What is VAT?

VAT is a tax that's charged on most business transactions in the UK. Businesses add VAT to the price they charge when they provide goods and services to:

- business customers - for example a clothing manufacturer adds VAT to the prices they charge a clothes shop
- non-business customers - members of the public or 'consumers' - for example a hairdressing salon includes VAT in the prices they charge members of the public

If you're a VAT-registered business, in most cases you:

- charge VAT on the goods and services you provide
- reclaim the VAT you pay when you buy goods and services for your business

If you're not a VAT-registered business or organisation then you can't reclaim the VAT you pay when you purchase goods and services.

Who charges VAT and what VAT is charged on

VAT-registered businesses add VAT to the sale price of most goods and services they provide.

When you must register for VAT

If you're a business and the goods or services you provide count as what's known as 'taxable supplies' (see 'What is VAT charged on' below) you'll have to register for VAT if either:

- your turnover for the previous 12 months has gone over a specific limit - called the 'VAT threshold' (currently £68,000)
- you think your turnover will soon go over this limit

You can choose to register for VAT if you want, even if you don't have to.

What is VAT charged on?

If you're VAT-registered you'll have to charge VAT on any goods and services that you provide in the UK that are VAT taxable. You charge VAT on the full sale price, even if you accept goods in part exchange or through barter instead of money.

How VAT is charged and accounted for

If you're VAT-registered the VAT you add to the sale price of your goods or services is called your 'output tax'. The VAT you pay when you buy goods and services for your business is called your 'input tax'.

Filling in your VAT Return

If you're VAT-registered you'll have to fill in a VAT Return at regular intervals - usually quarterly - and send it to HM Revenue & Customs (HMRC). The return shows:

- The VAT you've charged on your sales to your customers in the period - known as output tax
- The VAT you've paid on your purchases - known as input tax

If the amount of output tax is more than the input tax, then you send the difference to HMRC with your return.

If the input tax is more than your output tax, you claim a VAT repayment on your return.

There are special schemes that some businesses can use to help them work out and pay their VAT.

Rates of VAT

There are different VAT rates, depending on the goods or services that are being provided. At the moment there are three rates:

- standard rate - 17.5 per cent (15 per cent between 1 Dec 08 and 31 Dec 09)
- reduced rate - 5 per cent
- zero rate - 0 per cent

The standard rate of VAT is the default rate - this is the rate that's charged on most goods and services in the UK unless they're specifically identified as being reduced or zero-rated.

Examples of reduced-rated items

These are some examples of goods and services that may be reduced-rated, depending on the product itself and the circumstances of the sale:

- domestic fuel and power
- installing energy-saving materials
- sanitary hygiene products
- children's car seats

This isn't a complete list of reduced-rated items and services.

Examples of zero-rated items

These are examples of goods and services that may be zero-rated, depending on the product itself and the circumstances of the sale:

- food - but not meals in restaurants or hot takeaways
- books and newspapers
- children's clothes and shoes
- public transport

This isn't a full list of zero-rated items.

Items not covered by VAT

There are some items that aren't covered by VAT. These items are either:

- exempt
- outside the scope of VAT

Exempt items

Some items are exempt from VAT because the law says they mustn't have any VAT charged on them. Items that are exempt include the following:

- insurance
- providing credit
- education and training, if certain conditions are met
- fundraising events by charities, if certain conditions are met
- membership subscriptions
- most services provided by doctors and dentists

Selling, leasing and letting commercial land and buildings are also exempt from VAT. But you can choose - or 'opt' - to give up the right to the exemption and to charge VAT at the standard rate instead. This allows you to reclaim input tax when otherwise you wouldn't be able to (see 'The difference between exempt and zero-rated' below).

Outside the scope of VAT

There are some things that aren't in the UK VAT system at all - they're outside the scope of VAT. They are not taxable supplies and no VAT is charged on them. Items that are outside the scope of VAT include:

- non-business activities like a hobby - for example, you might sell some stamps from your collection
- fees that are fixed by law - known as 'statutory fees' - for example the congestion charge or vehicle MoT tests

The difference between exempt and zero-rated

If you sell zero-rated goods or services they count as taxable supplies, but you don't add any VAT to your selling price because the VAT rate is 0 per cent.

If you sell goods or services that are exempt, you don't charge any VAT and they're not taxable supplies. This means that you won't normally be able to reclaim any of the VAT on your expenses.

Generally you can't register for VAT or reclaim the VAT on your purchases if you sell **only** exempt goods or services. If you sell **some** exempt goods or services you may not be able to reclaim the VAT on all of your purchases.

If you buy and sell only - or mainly - zero-rated goods or services you can apply to HMRC to be exempt from registering for VAT. This could make sense if you pay little or no VAT on your purchases.

Find out more about VAT

VAT Helpline

If you need to find the answer to your question try the HMRC website, www.hmrc.gov.uk, or the easiest way is to ring the VAT Helpline where you can get most of your VAT questions answered.

Before you ring, make sure you have your VAT registration number and postcode to hand. If you're not VAT-registered, you'll need your postcode - it's needed so HMRC can keep a record of your call.

It's not always possible to answer your question straightaway over the telephone because the helpline adviser may need to research the answer. If this happens, they'll take your details and call you back as soon as possible. The helpline adviser will tell you how long it will take.

In some cases HMRC might need you to write in, especially if they need to look at your paperwork. The helpline adviser will tell you if this needs to happen and where you need to write to.

You can contact the VAT Helpline on Tel 0845 010 9000. It's open from 8.00 am to 8.00 pm Monday to Friday, and is closed weekends and bank holidays.

Business Advice Open Days

The Business Advice Open Days are popular events designed especially for small and medium-sized businesses and they take place in different locations around the UK. It's not just HMRC at these events - there are other government departments as well, like the Department of Work and Pensions, the Health and Safety Executive, the Intellectual Property Office and Business Link.

It's an opportunity to talk to experts and get all your questions answered in one place on the same day. You can:

- book a one-to-one session with a VAT adviser
- attend seminars about making VAT easier
- learn how to do tax online
- get help with marketing, funding and business planning
- get tips on how to make your business grow

VAT glossary

These are some plain English definitions of common VAT terms that HMRC uses:

- **accounting period:** see tax period
- **acquisitions:** goods brought into the UK from other EU countries - sometimes known as imports
- **corporate body:** an incorporated body such as a limited company, limited liability partnership, friendly, industrial or provident society
- **distance sales:** where a business in one EU country sells and ships goods directly to consumers in another EU country, eg Internet or mail-order sales
- **input tax:** the VAT you pay on your purchases
- **output tax:** the VAT you charge on your sales
- **place of supply:** the country where a supply of goods or services is said to be made for VAT purposes
- **self-billing:** your customer issues your VAT invoice and sends a copy to you with their payment
- **supply:** selling or otherwise providing goods or services, including barter and some free provision
- **supply of goods:** when exclusive ownership of goods passes from one person to another
- **taxable person:** any business entity that buys or sells goods or services and is required to be registered for VAT - this can be an individual, partnership, company, club, association or charity
- **taxable supplies:** all goods and services you sell or otherwise supply which are liable to VAT at the standard, reduced or zero rate - whether or not you are registered for VAT
- **taxable turnover:** the total value - excluding VAT - of the taxable supplies you make in the UK (excludes capital items like buildings, equipment, vehicles or exempt supplies)
- **tax period:** the period of time covered by your VAT Return, usually quarterly
- **tax point:** the date when VAT has to be accounted for - for goods, this is usually when you send the goods to a customer or when they take them away, for services, this is usually when the service is performed
- **time of supply:** see tax point