

Sloane Walker – Chartered Certified Accountants

Fact sheet 100

Introduction to VAT in the UK

What is VAT?

VAT is a tax chargeable on taxable supplies made in the United Kingdom by taxable persons. Credit is given for tax paid to other businesses and the net balance is payable or reclaimable - normally on a quarterly basis.

Who are ‘Taxable persons’?

A taxable person is any person carrying on a business that is, or is required to be registered for VAT and includes the following:

- An individual
- A partnership
- An unincorporated association, e.g. trust or charity
- A limited company
- A limited liability partnership

Supplies

VAT law covers all types of supply of goods or services (outputs), whether of a revenue or capital nature. Supplies include sale, hire, or loan of goods. Outputs normally fall into four categories:

1. Positive rated - taxable at the applicable tax rates
2. Zero rated - including socially or economically important items, e.g. exports, most food, books, newspapers, public transport, drugs on prescription, children's clothing
3. Exempt supplies - including necessities such as insurance, postage, finance, education, and health
4. Some receipts are outside the scope of VAT, e.g. dividends, shares of profit compensation for losses, non UK supplies

Should I be registered for VAT?

You should notify HM Revenue & Customs when:

- Taxable turnover for the past twelve months exceeds £68,000 – (this figure will change annually)
- There are reasonable grounds for believing that your turnover for the next 30 days will exceed £68,000 – (this figure will change annually)

In the first case, notification must be within thirty days of the end of the relevant month. In the latter case, notification must be within thirty days of the date on which grounds first existed. It is important to monitor turnover because there is a penalty for late registration. This is in addition to the tax payable.

Can I register for VAT if my taxable turnover does not exceed the prescribed limits?

It is possible to register voluntarily provided you have a bona fide business.

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Cash accounting scheme

This allows the trader to account for VAT on the basis of payments received and made rather than on tax invoices issued and received.

It may be advantageous to use cash accounting from the date of registration, although some businesses will not benefit from this scheme.

Credit for input tax

Input tax paid on purchases can be recovered by registered taxable persons, who are able to offset input tax against their output tax liabilities. Traders with fully exempt outputs cannot register or reclaim any input tax.

Credit is available for all VAT paid on inputs where a VAT invoice is available, **except** for tax on private expenditure, business entertainment, motor cars, certain building materials, and goods bought under a second-hand goods scheme. Recovery of input tax may be restricted if the business makes both taxable and exempt supplies.

How often will I have to complete a VAT return?

Every quarter, a return is issued and must be submitted with any payment due to HM Revenue & Customs no later than thirty days from the end of the quarter. Make returns and payments on time because extensive legislation exists to levy penalties on defaulters.

Businesses with regular repayments may make monthly returns. Those using the Annual Accounting Scheme need make only one return per year, which has to be submitted two months after the end of the scheme year.

There are specific records that must be kept to satisfy HMRC.

When can, or must, I deregister?

- You must deregister when taxable supplies are no longer made, e.g. when trading ceases
- You can deregister when anticipated turnover for the next year (measured from any time) is less than £66,000 (this figure changes annually), but this may not be in your interests - seek our advice first.

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Tax invoices

Copies of all tax invoices issued and received must be retained for at least six years unless a shorter period (normally at least three years) is agreed with HM Revenue & Customs.

A tax invoice is required to show:

- An identifying sequential number / letter
- The date of the supply and the date of issue of invoice
- The name, address, and registration number of the supplier
- The name and address of the person to whom the goods and services are supplied
- A description that is adequate for the purposes of identifying the goods or services supplied
- For each description the quantity of the goods or the extent or nature of the services, price, the rate of tax, and the amount payable, excluding tax
- The total amount payable excluding tax
- The rate of any cash discount offered
- The total VAT payable

Anyone supplying goods or services direct to the public or to any business that is not registered for VAT does not have to supply a tax invoice unless the customer requires one. Where the tax-inclusive value of supply is not more than £250, the supplier may issue a simplified form of invoice giving only the following details:

- Name, address and registration number of the retailer
- Date of supply
- A description, adequate to identify the goods or services supplied
- The total amount payable including tax
- The rate of tax at the time of the supply

This guide is not intended to replace the advice of a qualified accountant. Please contact Sloane Walker on 01404 812355 for further assistance.