

# VAT (Value Added Tax)

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## What is VAT, and when do I need to register?

Value Added Tax (VAT) is a sales tax – however it is a cost only to those individuals and businesses not registered for VAT.

It is compulsory to register for VAT when a UK based business makes taxable supplies (sales) above a certain threshold. The current threshold is £70,000 of invoiced sales in any one year. Any business which is registered for VAT has to charge VAT on its taxable supplies.

The standard VAT rate is currently 17.5%. When a business is registered for VAT it must charge VAT at 17.5% on the value of all sales of goods and services made in the UK. Other VAT rates apply in certain specific circumstances, but the standard rate is the most common. See further OC Guides for more about VAT on specific supplies.

Once a business is registered for VAT, any VAT suffered on the purchase of goods or services (input VAT) from its suppliers is recoverable from the tax authorities (HMRC) where it relates to supplies where VAT is charged.

Businesses may opt (depending on the circumstances) to make a VAT return on a monthly, quarterly or yearly schedule, although quarterly is by far the most common.

At the end of the VAT period, the amount of VAT charged to customers less the amount of VAT suffered on purchases is due to HMRC (or recoverable from HMRC if the VAT suffered is in excess of the VAT charged). There may be some other minor adjustments in calculating the VAT liability.

## Other reasons for registering

You can voluntarily register for VAT even if your taxable supplies are below the threshold, this enables you to reclaim input VAT on relevant expenditure.

Being VAT registered may give your business more credibility. When you are not VAT registered you are effectively saying that your turnover is less than £70,000.

## Effective date or registration, and costs incurred prior to registration

In some circumstances you can pick an effective date of registration of VAT before the actual date you are applying for registration.

Prior to the effective date you can reclaim input VAT (in the previous 6 months for services and 3 years for goods provided they are still in your possession).

## Annual Accounting and cash basis

It is usual to calculate VAT on a quarterly accruals basis, but in some circumstances it may be possible (and advantageous) to use either the annual or cash accounting schemes - in order to be eligible to use these your taxable turnover must be below £1.35m.

The annual accounting scheme means you only submit one VAT return per annum which reduces administrative burden, but if you are in a reclaiming position will have a cash flow disadvantage.

The cash accounting scheme means that you only account for VAT actually received and paid as opposed to invoiced. This means that if you suffer a bad debt you get immediate relief in terms of the VAT element.

## Flat rate scheme

This is a scheme for small businesses (turnover less than £150,000) that operates totally differently.

The flat rate scheme reduces the administrative burden as a set percentage is charged on all taxable supplies this is lower than the standard rate, it prevents you having to separately record all output and input VAT. The flat rate percentage is specific to each industry sector.

## When do I not charge VAT?

You do not charge VAT if:

- Taxable supplies are below the VAT registration threshold and you have not voluntarily registered;
- you are making exempt supplies;
- you are selling services to a company, where the services provided benefit a company outside of the European Union (EU);
- You are selling goods which are exported outside the EU;
- When supplying goods or services from the UK to another country within Europe you can zero rate the supply provided the recipient is registered for VAT in the country they are receiving the goods or services in, and provides you with their VAT number which is recorded on the invoice you raise.

## Disclaimer:

This note does not contain a full statement of the law and it does not constitute legal advice. Please seek legal advice if you have any questions about the information set out above.