Oury Clark Quick Guides:

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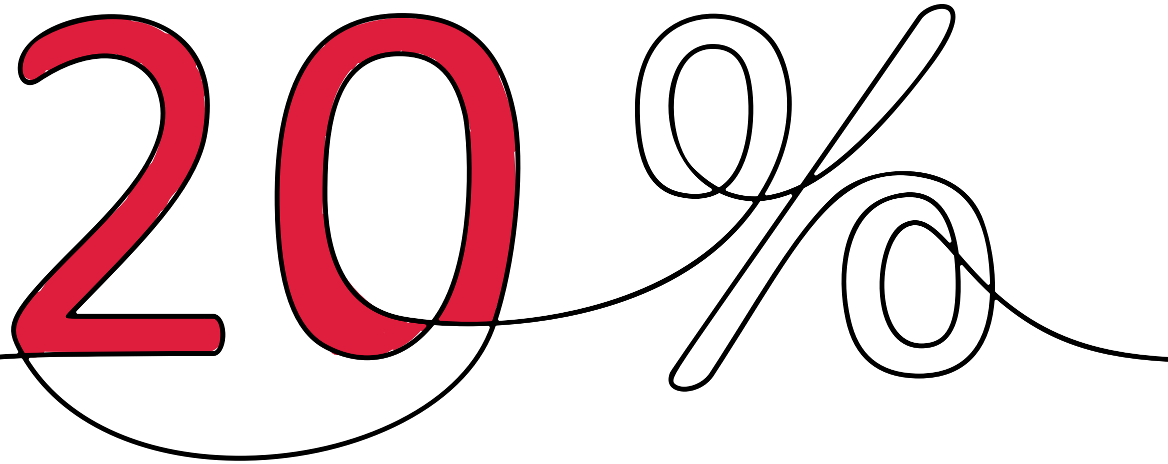
VAT an Introduction



VAT: K21

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

Value Added Tax (VAT) is a sales tax – however it is a cost 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.
- an overseas business makes taxable supplies in the UK of any value.

The current threshold is £85,000 of invoiced sales in any 12-month period. Any business which is registered for VAT has to charge VAT on its taxable supplies.

The standard VAT rate is currently 20%. When a business is registered for VAT it must charge VAT at 20% on the value of standard rated sales of goods and services made in the UK. Other VAT rates (5% and 0%) apply in certain specific circumstances, but the standard rate is the most common.

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).

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.

UK VAT Returns are due one month and one week after the end of the accounting period, so for a VAT return for August, this would be due in the first working week of October. Where the 7th day falls on a weekend or public holiday, the deadline is the last working day.

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 £85,000.

Effective date of 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 on your first VAT return (in the previous 6 months for services and 4 years for goods provided they are still in your possession).

Annual and Cash Accounting schemes

It is usual to calculate VAT quarterly, on an invoice 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 VAT refund position, you 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, and removes the need to separately record all output and input VAT. The flat rate percentage is specific to each industry sector.

Should I always charge VAT?

It is important to apply the correct rate of VAT to the goods and services you supply. Generally, you do not charge VAT if:

- Taxable supplies are below the VAT registration threshold, and you have not voluntarily registered for VAT;
- You are making exempt supplies;
- You are selling services to a company, where the services provided benefit a company outside of the UK;
- You are selling goods which are exported outside the UK.

What else should I consider?

Postponed Import VAT Accounting: If you import goods into the UK and pay import VAT, you can opt to 'postpone' the import VAT by accounting for the import VAT on your VAT Return. Instead of paying cash over to clear your goods, you can inform your Customs Clearance Agent to select the Postponed VAT Accounting option when completing your Customs Declaration. The VAT can then be accounted on your imports on the VAT Return on a 'reverse charge' basis with a net nil balance to pay.

EORI: You may need an Economic Operators Registration and Identification number (EORI number) if you import goods into the UK, and this can ordinarily be applied for at the same time as the VAT Registration.

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