



# An introduction to VAT

# What is VAT?

- **Value Added Tax**
- **AtaxonthesupplywithinthetheUKof:**
  - **Goods**
  - **Services**
- **ImportsandacquisitionsintotheUK**
- **Chargedbyataxableperson**
- **Inthecourse/furtheranceofbusiness**

# VAT Terms

- **Outputs- Sales**
- **OutputTax- VATonsales**
- **Inputs– Purchases/Expenses**
- **InputTax– VATonpurchases  
andexpenses**

# When do I have to register?

## Compulsory registration

- Exceed the threshold (£61,000)
- Must notify C&E within 30 days
- Late notification

# Can I choose to register?

- **Voluntary registration**
- **Intending registration**

# Benefits of registration

- Helps cash flow as you claim VAT on purchases and expenses
- Commercial credibility
- Discipline of keeping records up to date

# How do I register?

- Complete Form VAT1 manually or on-line
- Submit VAT1 to VAT Registration Unit
- Certificate of Registration issued

# Rates of VAT

- **Taxable:**
  - **Standard rate 17.5%**
  - **Reduced rate 5%**
  - **Zero rate 0%**
- **Exempt**
- **Outside the scope of UK VAT**

# How do I account for VAT?

- **Standard method**
- **Cash accounting**
- **Annual accounting**
- **Flat rate scheme**

# Standard Method

- Account for VAT from date of invoice
- Claim VAT on purchases from date of invoice – regardless of whether you have paid supplier for goods or services

# Cash Accounting

- **Account for VAT on sales**    *only when you are paid*
- **Claim VAT on purchases**    *only when you pay for them*
- **Turnover < £660,000**

# Annual Accounting

- **One VAT return per year**
- **Interim payments**
- **Taxable supplies <£1.3million**

# Flat Rate Scheme

**You charge VAT as normal BUT you**

- **Calculate your VAT payment as a % of your total takings**
- **Only recover VAT as input tax on capital items valued over £2,000**

**Taxable turnover < £150,000**

**Total turnover where some exempt supplies < £187,500**

# Specialist Schemes

- **Retail Schemes - businesses who do not normally issue invoices**
- **Margin Schemes - supply of used goods only**

# What records do I need to keep?

- Record of sales
- Record of purchases
- VAT account

# VAT Account for Period March 2006

<b>Sales P</b>	<b>urchases</b>
<b>NETVAT</b>	<b>NETVAT</b>
<b>Jan=£4,180.00£731.50Jan=</b>	<b>£766.00£125.06</b>
<b>Feb=£1,690.00£295.75Feb=</b>	<b>£624.17£109.23</b>
<b>Mar=£2,350.00£411.25Mar=£26,</b>	<b>569.00£4,430.82</b>
<b>Totals£8,220.00£1,438.50£</b>	<b>27,959.17£4,665.11</b>

# What is Input Tax?

- VAT incurred can only be reclaimed as Input Tax inasmuch as it relates to the making of taxable supplies.

# What can't I claim as input tax?

- **Cars**
- **Business entertainment**
- **Items not for business use**
- **Special arrangements:**
  - **apportionment**
  - **motoring expenses**

# Pre-registration costs

- Must be for the person now registered
- Originally bought for use in the business
- Goods still in your possession at the time of registration
- Keep the invoices as evidence
- 3 year limit on goods
- 6 month limit on services
- ✗ Excludes consumables (e.g. fuel)

# How do I fill in my VAT return?

Output tax	Box 1	2875.77
Acquisition tax	Box 2	None
Total	Box 3	2875.77
Input tax	Box 4	733.09
Due to C&E	Box 5	2142.68
Outputs	Box 6	16,495
Inputs	Box 7	5,599
EC Sales	Box 8	None
EC Purchases	Box 9	None

## On-line options

- **Electronic VAT registration**
- **Electronic VAT return.**
  - onscreen acknowledgement of receipt
  - issued with a unique reference
  - pay electronically ( ie. BACS, CHAPS)
- **eVAT Direct Debit.**
- **E-mail alerts relevant to your business.**
- **Request detail amendments online.**

# Contact from HMRC

- To offer advice and assistance
- To arrange a visit
- To request an annual accounts form  
desk audit
- To query an unusual return
- To track down missing returns
- To pursue outstanding payments

# What happens on a VAT visit?

- Usually by appointment
- Format
- Treatment of any errors
- Appeals and complaints

# Hereto help!

- **NationalAdviceService08450109000**
- **[www.hmrc.gov.uk](http://www.hmrc.gov.uk)**
- **BusinessLink08456009006**  
**[www.businesslink.gov.uk](http://www.businesslink.gov.uk)**