

An Introduction to VAT

What is VAT?

VAT is a tax chargeable on taxable supplies made in the UK 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.

Taxable persons

A taxable person is defined as one of the following carrying on a business:

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

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. Output normally falls into four categories:

1. Positive rated - taxable at 20% or 5%
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 (HMRC) when:

- Vatable turnover for the past twelve months exceeds £77,000
- There are reasonable grounds for believing that your turnover for the next 30 days will exceed £77,000.

In the first case, notification must be within thirty days of the end of the relevant months. 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 vatable turnover does not exceed the prescribed limits?

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

Cash accounting scheme

There is a special scheme applicable to businesses where taxable turnover is expected to be not more than £1,350,000 in the next 12 months.

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.

Retail schemes

Special schemes of accounting for VAT are available to retailers. We can advise on the best choice.

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 must be submitted to HMRC. 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.

Deadlines for VAT returns and payment

The normal due date for filing of VAT returns and payment of the VAT is one month after the end of the VAT period. From 1 April 2010 all businesses with VAT exclusive turnover of £100,000 or more – or newly registered businesses – have to submit their VAT returns online and pay any VAT due on that return electronically. Paying electronically will normally carry an entitlement of up to seven extra calendar days to submit the return and pay the VAT. The extended due date will be shown on the online VAT return. Cleared funds must reach HMRC's bank account by this date.

Where an online Direct Debit is in force HMRC will collect payment from the nominated bank account a further three working days after the extended due date for the return. This means that online VAT Direct Debit offers more time to pay than any other method – normally a minimum of 10 extra calendar days.

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 £75,000, but this may not be in your interests – seek our advice first

Tax invoices

Specific rules are laid down as to the form and content of tax invoices. These are to ensure that all the necessary information is recorded for the determination of the rate of tax to be applied, the liability of the supplier to account for the output tax due on the supply, and the entitlement of the recipient to reclaim all or any of it as input tax.

There is no requirement to issue a tax invoice for a zero-rated or exempt supply. However, it would seem appropriate to issue some form of invoice for either type of supply to establish that VAT is not chargeable on it.

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:

- A sequential number based on one or more series which uniquely identify the document
- 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, a unit 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

There are other disclosure requirements for certain special types of supply.

Anyone supplying goods or services direct to the public 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

Please contact us if you would like further help or advice.