

VAT (Value Added Tax)

VAT in the UK was first introduced in April 1973 to replace the Purchase Tax and is one of the largest sources of Government revenue. When the UK joined the European Economic Community (now EU) a consequence was Purchase Tax was to be replaced with VAT.

WHAT IS VAT

VAT is a consumption tax levied on most goods and services sold in the UK. It is a tax that businesses charge on behalf of the Government when they sell products or services to consumers.

VAT RATES

The **Standard** VAT rate in the UK is **20%**. This applies to most goods and services although some are taxed at a **Reduced Rate** of 5%, such as home energy and children's car seats.

There is also a **Zero Rate** meaning VAT is charged at 0% for basic food items, children's clothing, and books, for example.

You may also come across goods and services which are **Exempt** from VAT altogether such as postage stamps, financial services, and education.

WHO NEEDS TO REGISTER FOR VAT?

Businesses must register for VAT if their taxable turnover exceeds **£90,000** in a 12-month period (as of **1 April 2024**). It is important to monitor your turnover, particularly if you expect to exceed this threshold to ensure you register on time.

Businesses below this threshold can voluntarily register for VAT, which allows them to reclaim VAT on purchases.

HM Revenue & Customs (HMRC) have a useful webpage with more information on how VAT works - <https://www.gov.uk/how-vat-works>

HOW VAT WORKS

Charging VAT: When a business sells goods or services, it adds VAT to the sale price. This is known as output tax.

Paying VAT: Businesses also pay VAT on their purchases (input tax).

Reclaiming VAT: If a business's input tax exceeds its output tax, it can reclaim the difference from HMRC.

Paying VAT Liability: If a business's input tax is less than its output tax, then a liability will be due to HMRC. This will be due 1 month and 7 days after the quarter end date, for example if your VAT quarter finishes on 30 September then the liability and return will be due by 7 November. If you sign up to pay your VAT by direct debit, you have a few extra days as the liability is usually taken between the 10th and 12th depending on how the days of the week fall.

VAT Returns

VAT registered businesses must submit VAT returns to HMRC, usually every quarter although can be monthly or even annually. The VAT return shows the amount of VAT charged on a business' sales, the VAT collected on the business' purchases and then the overall amount due to or from HMRC for the period.

Special Schemes

There are special VAT schemes for certain businesses, like the Flat Rate Scheme, which simplifies VAT reporting for small businesses, or partial exemption for businesses which supply standard rated and exempted services, for example rental properties or opticians. The marginal rate scheme can be used when buying and selling second hand goods.

CONCLUSION

VAT can seem complex, but understanding the basics helps businesses comply with tax regulations and manage their finances effectively. If you're running a business, it's important to keep good records and stay informed about VAT obligations.

Here at AMR Bookkeeping we are able to assist you and your business in understanding VAT, when to register, how to complete a VAT return, what scheme to use and how to submit your return and pay any liabilities. Please do get in touch if you are looking for expert knowledge and experience in managing VAT.