

## **Introduction to VAT [UK]**

(HM Revenue and Customs, <http://www.hmrc.gov.uk/vat/start/introduction.htm>)

VAT is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK. It's also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

VAT is charged when a VAT-registered business sells to either another business or to a non-business customer.

When VAT-registered businesses buy goods or services they can generally reclaim the VAT they've paid.

There are three rates of VAT, depending on the goods or services the business provides. The rates are:

- standard - 20 per cent
- reduced - 5 per cent
- zero - 0 per cent

There are also some goods and services that are:

- exempt from VAT
- outside the UK VAT system altogether

### What is VAT?

VAT is a tax that's charged on most business transactions in the UK. Businesses add VAT to the price they charge when they provide goods and services to:

- business customers - for example a clothing manufacturer adds VAT to the prices they charge a clothes shop
- non-business customers - members of the public or 'consumers' - for example a hairdressing salon includes VAT in the prices they charge members of the public

If you're a VAT-registered business, in most cases you:

- charge VAT on the goods and services you provide
- reclaim the VAT you pay when you buy goods and services for your business

If you're not VAT-registered then you can't reclaim the VAT you pay when you purchase goods and services.

### Who charges VAT and what VAT is charged on

VAT-registered businesses add VAT to the sale price of most goods and services they provide.

### When you must register for VAT

If you're a business and the goods or services you provide count as what's known as 'taxable supplies' (see 'What is VAT charged on' below) you'll have to register for VAT if either:

- your turnover for the previous 12 months has gone over a specific limit - called the

'VAT threshold' (currently £79,000)

- you think your turnover will soon go over this limit

You can choose to register for VAT if you want, even if you don't have to.

### What is VAT charged on?

If you're VAT-registered you'll have to charge VAT on any goods and services that you provide in the UK that are VAT taxable. You charge VAT on the full sale price, even if you accept goods in part exchange or through barter instead of money.

How VAT is charged and accounted for

If you're VAT-registered the VAT you add to the sale price of your goods or services is called your 'output tax'. The VAT you pay when you buy goods and services for your business is called your 'input tax'.

### Filling in your VAT Return

If you're VAT-registered you'll have to submit a VAT Return at regular intervals - usually quarterly - the return shows:

- the VAT you've charged on your sales to your customers in the period - known as output tax
- the VAT you've paid on your purchases - known as input tax

If the amount of output tax is more than the input tax, then you send the difference to HM Revenue & Customs (HMRC) with your return.

If the input tax is more than your output tax, you claim the difference back from HMRC.

There are special schemes that some businesses can use to help them work out and pay their VAT.

### Rates of VAT

There are different VAT rates, depending on the goods or services that are being provided. Currently there are three rates:

- standard rate 20 per cent
- reduced rate 5 per cent
- zero rate 0 per cent

The standard rate of VAT is the default rate - this is the rate that's charged on most goods and services in the UK unless they're specifically identified as being reduced or zero-rated.

### Examples of reduced-rated items

These are some examples of goods and services that may be reduced-rated, depending on the product itself and the circumstances of the sale:

- domestic fuel and power
- installing energy-saving materials
- sanitary hygiene products
- children's car seats

This isn't a complete list of reduced-rated items and services.

### Examples of zero-rated items

These are examples of goods and services that may be zero-rated, depending on the

product itself and the circumstances of the sale:

- food - but not meals in restaurants or hot takeaways
- books and newspapers
- children's clothes and shoes
- public transport

This isn't a full list of zero-rated items.

### Items not covered by VAT

There are some items that aren't covered by VAT. These items are either:

- exempt
- outside the scope of VAT
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### Exempt items

Some items are exempt from VAT because the law says they mustn't have any VAT charged on them. Items that are exempt include the following:

- insurance
- providing credit
- education and training, if certain conditions are met
- fundraising events by charities, if certain conditions are met
- membership subscriptions, if certain conditions are met
- most services provided by doctors and dentists

Selling, leasing and letting commercial land and buildings are also exempt from VAT. But you can choose - or 'opt' - to give up the right to the exemption and to charge VAT at the standard rate instead. This allows you to reclaim input tax when otherwise you wouldn't be able to (see 'The difference between exempt and zero-rated' below).

### Outside the scope of VAT

There are some things that aren't in the UK VAT system at all - they're outside the scope of VAT. They are not taxable supplies and no VAT is charged on them. Items that are outside the scope of VAT include:

- non-business activities like a hobby - for example, you might sell some stamps from your collection
- fees that are fixed by law - known as 'statutory fees' - for example the congestion charge or vehicle tests