

VAT for beginners

What is VAT?

Value Added Tax (VAT) is a tax charged on most business transactions made in the UK or the Isle of Man.

It is also charged on goods, and some services, imported from places outside the European Union and on goods and some services coming into the UK from the other EU countries.

All goods and services that are VAT rated are called 'taxable supplies'. You must charge VAT on your taxable supplies from the date you first need to be registered. The value of these supplies is called your 'taxable turnover'.

Some examples of taxable supplies:

- selling new and used goods, including hire purchase
- renting and hiring out goods
- using business stock for private purposes
- providing a service, for example hairdressing or decorating and
- charging admission to enter into buildings.

If you are VAT registered, you will charge VAT on many goods and services you supply to customers in the UK and Isle of Man.

VAT does not apply to certain services because the law says these are 'exempt' from VAT. These include loans of money, some property transactions, insurance and certain types of education and training. Supplies that are exempt from VAT do not form part of your taxable turnover.

There are three rates of VAT in the UK:

- 17.5% (standard-rate)
- 5% (reduced rate) and
- 0% (zero-rate).

You will probably have to register for and charge VAT if:

- your taxable turnover reaches or is likely to reach a set limit, known as the VAT registration threshold
- you have taken over a business as a going concern or

- you acquire goods from other European Union countries.

The current VAT registration threshold is £60,000. But you can opt to register for VAT if your taxable turnover is less than this, if what you do counts as a business for VAT purposes. Turnover is the amount of money going through the business, not just the profit.

Do I have to register for VAT?

If you are in business and your taxable turnover, not just your profit, goes over the registration threshold you become a 'taxable person'. You must then register for VAT. If you don't register at the correct time you could be fined.

The [supplement](#) to Notice 700/1 Should I be registered for VAT? sets out the current and past registration thresholds.

You must register for VAT if:

- at the end of any month the total value of the taxable supplies you have made in the past twelve months or less is more than the current threshold - £60,000 and
- at any time you have reasonable grounds to expect that the value of your taxable supplies will be more than the current registration threshold - £60,000 - in the next thirty days alone.

These rules also apply when you take over a business as a going concern (see Notice 700/9 Transfer of a business as a going concern). It doesn't matter whether the last owner was registered:

- if the business is trading at a level above the limit then you'll need to register and
- your date of registration will be the day you take over the business.

To register for VAT you must complete Form VAT 1, which you must send to Revenue & Customs within 30 days of any of the above.

What is taxable turnover?

All goods and services which are liable to VAT at the standard, reduced or zero-rate are called 'taxable supplies', whether you are registered for VAT or not. The total value of these supplies is called your 'taxable turnover'. If you are in business and your taxable turnover reaches or is likely to reach the registration threshold you will probably have to register for VAT. You must charge VAT on your taxable supplies from the date you first need to be registered.

If you receive certain services from abroad, for example advertising, data processing, consultancy or legal, accounting or professional services, these will be treated as if you supplied them and you must include the value in your taxable turnover.

For a full list of these services, see [Notice 700 The VAT Guide](#) Section 31.

What are input tax and output tax?

Input tax is the VAT that you pay out to your suppliers for goods and services that you purchase for your business. It is VAT on goods or services coming IN to your business. Input tax is the VAT that registered businesses can reclaim.

Output tax is the term used to describe the VAT on your sales of goods or services. Output tax is the VAT on goods or services going OUT of the business. Output tax is the VAT you collect from your customers on each sale that you make.

Why would I want to register for VAT if my taxable turnover is below the threshold?

If your taxable turnover is below the registration threshold you can apply for 'voluntary registration', if you can prove that what you do is a business for VAT purposes. There are advantages and disadvantages to registering voluntarily. Before you apply weigh up carefully whether it will benefit you.

Benefits include increased credibility for your business and, if your business makes standard or zero-rated supplies, you'll be able to claim back input tax.

However, once registered for VAT, you'll have to:

- account for output tax on all your taxable supplies
- keep proper VAT records and accounts and
- send in VAT returns regularly.

For more information call the C&E National Advice Service 0845 010 9000.

What are the exceptions?

No VAT is charged on taxable supplies made by a business which is not, and is not required to be, registered for VAT. These are known as 'outside the scope' supplies.

VAT does not apply to certain services because the law says these are 'exempt' from VAT. These include loans of money, insurance, certain types of education and training and some property transactions (selling, leasing and letting land and buildings, but not garages, parking spaces, hotel or holiday accommodation).

Supplies that are exempt from VAT do not form part of your taxable turnover.

If the only services you supply are exempt supplies, you can't normally be registered for VAT. If you are registered for VAT and have some exempt supplies you may not be able to get all your input tax back.

What if all my goods are zero-rated?

If you only supply goods that are zero-rated, you may not have to register for VAT even if your taxable turnover goes above the registration threshold, but you do have to tell HMRC first and apply to be 'exempt from registration'.

I'm a small business - is there anything that will make VAT simpler?

There are a number of simplified arrangements to make VAT accounting easier for small businesses:

- **Annual accounting**
If you use the annual accounting scheme you pay monthly or quarterly instalments towards an annual VAT bill. This evens out VAT payments and helps smooth cash flow. At the end of the year you submit a single annual return and any balance due. See [Choose the right VAT scheme for your business](#) for more information about the benefits.
- **Cash accounting**
If you use this scheme, you account for VAT on the basis of payments you receive and make, rather than on invoices you issue and receive. This means you don't pay us VAT until your customers pay you. See [Choose the right VAT scheme for your business](#) for more information about the benefits.
- **Flat rate scheme**
This makes VAT simpler by letting you calculate your VAT payment as a flat rate percentage of your turnover. The percentages are decided according to the trade sector your business is in. Under the scheme you won't be able to reclaim any of the VAT you pay, as this is taken into consideration as part of the percentage calculation. See [Choose the right VAT scheme for your business](#) for more information about the benefits.
- **Retail schemes**
If you sell direct to the public you may find it difficult to issue a VAT invoice for each sale. There are several retail schemes available that may help. See [Choose the right VAT scheme for your business](#) for more information about the benefits.

- **Bad debt relief**
If you make supplies of goods or services to a customer but you are not paid you may be able to [claim relief from VAT on the debts](#).

Where can I find more detailed information online or in print?

Revenue & Customs also produces a range of leaflets called Notices, which give more specific help and guidance. All the leaflets below are available on our website, or you can get copies from the National Advice Service on 0845 010 9000.

The VAT Guide: [Notice 700](#) tells you more about what you should and shouldn't charge VAT on.

Should I be registered for VAT?: [Notice 700/1](#) explains in more detail who should register for VAT and shows you how to fill in form VAT 1.

Filling in your VAT return: [Notice 700/12](#) provides helpful hints on completing your VAT return.

The Ins and Outs of VAT: [Notice 700/15](#) gives a simple introduction to output and input tax.

Keeping Records and Accounts: [Notice 700/21](#) explains what records you will need to keep.

How to correct errors and make adjustments: [Notice 700/45](#)

Retail schemes: [Notice 727](#)

Cash Accounting Scheme: [Notice 731](#)

Annual Accounting Scheme: [Notice 732](#)

Flat rate scheme for small businesses: [Notice 733](#)

Catalogue of Publications: [Notice 999](#) provides a list of all the current publications issued by Revenue & Customs.

Can I speak to someone for more help?

Yes! Contact the Revenue & Customs Contact Centre.

- If you need general advice from HM Revenue & Customs ring the Revenue & Customs Contact Centre on 0845 010 9000. The service is available from 8.00 am to 8.00 pm Monday to Friday.

- If you would like to speak to someone in Welsh, ring 0845 010 0300. The service is available from 8.00 am to 6.00 pm Monday to Friday.
- If you have hearing difficulties please ring the Text phone service on 0845 000 0200.

All calls are charged at the local rate within the UK. Charges may differ from mobile phones.

HMRC offer lots of support to help you on the track with your VAT. Shortly after you have registered they'll contact you and explain more about the options that are available, including:

- **Seminars** - offered locally, both during and outside normal office hours, which include a basic introduction to VAT; and HMRC offer special seminars to importers and exporters on the basics of international trader facilitation and procedures.
- **One-to-one consultations** - individual appointments during office hours, giving you the opportunity to discuss your particular business.

To take advantage of these services ring the HMRC National Advice Service 0845 010 9000. You don't have to be VAT registered to call! All services provided by the teams are optional and free of charge.