

Tax help series

VAT - what you need to know

What is VAT?

VAT (Value Added Tax) is a tax that is charged on most goods and services supplied by VAT registered businesses in the United Kingdom (UK).

VAT is also charged on goods, and some services, that are imported from countries outside the European Union (EU), or brought into the UK from other EU countries. You can find more information at www.hmrc.gov.uk/vat

Record Keeping – for VAT registered businesses

As well as normal business records, VAT registered businesses need to keep additional records.

These are:

- the VAT account
- VAT sales and purchase invoices
- import and export documentation.

Recording a summary of your allowable VAT inputs and outputs helps you to complete your VAT Return accurately.

You will find general advice about keeping records in our factsheet TH FS1 'Keeping records for business – what you need to know', at www.hmrc.gov.uk/factsheet/record-keeping.pdf

To get a personalised checklist of records you need to keep and assess how well you are keeping your records, use our interactive tool at www.businesslink.gov.uk/recordkeepingcheck

VAT rates

Once you are registered for VAT, you must charge VAT at the correct rate on all of the sales that you make within the UK, unless they are either exempt from VAT or outside the scope of UK VAT. You will find full details of current rates at www.hmrc.gov.uk/vat/forms-rates/rates/rates.htm

Making VAT simpler

Businesses normally account for VAT when:

- they invoice their customers
- they are invoiced by their suppliers.

There are several alternative VAT accounting schemes available to help simplify the way that you can account for VAT. Some of these VAT accounting schemes have been designed for specific trade sectors. Others have been designed to deal with more general business issues. Some of the schemes can be used together.

VAT accounting schemes may help to simplify your VAT accounting and smooth your cashflow.

- Annual Accounting Scheme. Reduce paperwork and manage your cash flow more easily by submitting one VAT Return a year and making regular monthly payments.
- Cash Accounting Scheme. You don't need to pay VAT until your customer pays you – if your customer doesn't pay, you don't have to pay the VAT.

Customers with particular needs

If you need extra help, please let us know.

For example, if:

- English is not your first language, or
- you would like us to use a certain format to communicate with you, for example, Braille or Text Relay.
If you use Text Relay by
 - text phone, dial **18001** + number
 - phone, dial **18002** + number
- you would like us to visit you at home because it is difficult for you to get to one of our offices.

What if you are unhappy with our service

If you are unhappy with our service please contact the person or office you have been dealing with. They will try to put things right. If you are still unhappy, they will tell you how to complain. If you want to know more about making a complaint go to www.hmrc.gov.uk/complaints-appeals

Your rights and obligations

Your Charter explains what you can expect from us and what we expect from you. For more information go to www.hmrc.gov.uk/charter

Other taxes and benefits

For other taxes and benefits dealt with by HMRC, you can find a list of our helplines on the HMRC website at www.hmrc.gov.uk/contactus

- Flat Rate Scheme. Pay VAT as a flat-rate percentage of your turnover and save time accounting for VAT on sales and purchases.
- VAT schemes for retailers. How to keep VAT invoicing and VAT accounting to a minimum if you're a retailer.
- Margin schemes for second hand goods, art, antiques or collectibles. Prevent the financial disadvantage that businesses who sell second hand goods on which there is no VAT to claim back, would otherwise experience.

For more information about these schemes, go to www.hmrc.gov.uk/vat/start/schemes

Accounting for VAT – the VAT Return

You need to complete a VAT Return online and send it to HMRC at the end of each 'VAT period' - usually every three months.

The return tells HMRC:

- how much VAT you charged to your customers (output tax) and
- how much VAT you paid to your suppliers (input tax).

If the total VAT you have charged is more than the total VAT you have paid, you need to pay the difference to HMRC.

If the VAT you have paid out is more than the VAT you have charged, HMRC will pay you the difference.

File your VAT Return online

All new businesses registering for VAT, and all existing businesses with a turnover of £100,000 or more, need to file their returns online, and make any payments electronically. By April 2012 this process will apply to all VAT registered businesses. You can find more information and how to register for VAT online at www.hmrc.gov.uk/vat/vat-online

To find out more about paying HMRC, go to www.hmrc.gov.uk/payingvat

Reclaiming VAT – what you can and cannot claim

You can reclaim the VAT that you have paid on most goods or services for your business, but you cannot reclaim the VAT if the goods or services that you sell are exempt from VAT. Always make sure that you keep all required documentation, such as VAT receipts.

The rules about business expenses are not always the same for Income Tax and VAT. Do not assume that you can reclaim the VAT paid on an item just because it is an allowable expense for Income Tax or Corporation Tax purposes.

For more help

We have developed some guidance about VAT for specific business sectors.

If you are:

- a builder
- a motor dealer
- a tax adviser, or
- a charity

go to www.hmrc.gov.uk/vat/sectors/index.htm where you will also find guidance for consumers.

Getting more advice about VAT

Go to www.hmrc.gov.uk/vat or phone **0845 010 9000** Monday to Friday 8am to 6pm.

Textphone **0845 000 0200**.

Os hoffech siarad â rhywun yn Gymraeg, ffoniwch **0845 010 0300**, dydd Llun i ddydd Gwener 8am i 6pm.

Paid VAT before you registered?

You may be able to reclaim the VAT that you have paid on goods or services that you bought before you registered for VAT. In some cases, you can reclaim the VAT that you paid:

- on goods you bought up to four years before you registered
- for services you bought up to six months before you registered.

You cannot reclaim the VAT paid for goods and services that are used for non-business activities. This includes:

- goods and services that are bought for your personal use
- cars that are not used exclusively for business purposes (and any fitted accessories and delivery)
- goods and services for non-business use bought by charities or non-profit organisations.

For full details about reclaiming VAT on your purchases, go to www.hmrc.gov.uk/vat/managing/reclaiming/index.htm

International trade

If you sell, supply or transfer goods or services out of the UK to traders registered for VAT in other EC member states you will need to file an EC Sales List (ESL). The information you provide will be used by other EC member states to make sure that VAT has been correctly accounted for.

If you plan to export goods to countries outside the EU you will need to get an identification number to deal with EU customs authorities. This number is known as an Economic Operator Registration and Identification number (EORI).

You will find more information about:

- reporting your EU sales using the EC Sales List at www.hmrc.gov.uk/vat/managing/international/esl/reporting-esl.htm
- international trade at www.hmrc.gov.uk/factsheets/import-export.pdf
- the EORI at www.hmrc.gov.uk/vat/managing/international/exports/goods.htm

More help and advice

For interactive help and advice from across Government in one place specifically designed for small businesses go to the 'My New Business' pages on Businesslink.gov.uk at www.businesslink.gov.uk/mynewbusiness

You'll find lots of free interactive material and videos to help guide and support you. For example, it will help you to work out the expenses that you can claim and take you through how to file your tax return online. And it doesn't just cover tax issues; there are a lot of other things you might want to know about running your business, like marketing and raising finance.

If you register with 'My New Business' you can tailor the material you want to see and be guided to the help available for your circumstances.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.
Customer Information Team
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