

VAT

There are ways of making Value Added Tax as painless as possible:

- 1) Keep your sales invoices and make sure you put your VAT number and registered business address on them
- 2) If purchase invoices do not split out the VAT element, as long as it has a VAT registration number on the invoice you can reclaim the VAT
- 3) Put the important dates on your wall calendar and in your daily planner/phone/on the post-it notes you have lined up, stuck on the bottom of your computer screen. Whether you choose to pay your VAT monthly, annually or quarterly you need to be prepared

What is VAT and how does it work?

It is always nice to know the basics and there is no reason VAT should stay a mystery to you, though we would rather not bore you with every detail. Oh yes, we are well aware of its complexities, even accountants are not immune to the occasional yawn. That said, VAT payments can often make or break a company so it is a good idea to arm yourself with a reasonable insight into how it all works.

The Basics

Purchases = input VAT Sales = output VAT

The calculations you will need to work out the VAT you owe are written below but first let's look at what system you will use to pay it.

You can either submit it under the cash accounting scheme which is when you pay over VAT as invoices are paid. You could choose to pay when products/ services are invoiced, this is called invoice basis. This approach goes by the invoice date rather than payment, so it tends not to be as good for cash flow. There is also the flat rate scheme which is when you don't claim VAT on inputs and you only pay over VAT on your outputs at a lower rate.

There are different VAT rates, so you have the standard rate which at the minute is 20%. The reduced rate for things such as light and heat. There are also 0 rated items such as some foods. And, finally there are exempt items, such as rates. Make sure you know what you need to pay VAT on and how you will pay it. Once you have a system in place it will all seem far less daunting.

Let's go into a little more detail now, maybe open up a window and make sure there is some fresh air coming in to keep you alert (awake!).

How does it work? Invoice and cash accounting basis = you take the cost of your outputs and you add on the VAT element. So when it comes to doing your VAT return you take the VAT element and you deduct the input VAT and the difference is paid over the HMRC.

The calculation $\text{NET} \times 20\% = \text{VAT element}$ ($\text{£}100 \times 20\% = \text{£}20$)

$\text{NET} + 20\% = \text{GROSS}$ ($\text{£}100 + 20\% = \text{£}120$) $\text{GROSS} / 6 = \text{VAT element}$ ($\text{£}120 / 6 = \text{£}20$)

Registration and deregistration The VAT registration limit is 81,000 which is based on your turnover. So if your turnover is at 75,000 you need to consider VAT registration. This can be done online.

If you need to deregister for VAT you can do this on a VAT form 7 which can be downloaded from the HMRC website. The deregistration threshold is 79,000. If your business is changing its legal status, ie partnership to limited company, you can either cancel the old registration number or you can flip it from partnership to the limited company.

Penalties and surcharges

If VAT returns are not submitted on time you will incur a surcharge by HMRC. If the returns are consistently late they will self-assess what the VAT return should be which you will need to pay. HMRC do also charge interest. This is the point where a company's future can be placed in danger if regular late VAT payments lead to interest and ultimately an unmanageable debt.

To avoid this make sure you stay on top of VAT calculations and make sure you are able to pay it on time. To finish you will find below a good overview of VAT rates, some of the items that are zero rated and some items that are VAT exempt. These lists are not final and if you want to be sure about whether something is zero rated or exempt then you can either phone us or contact HMRC for advice.

Flat Rate Scheme

Do you qualify?

First of all your VAT taxable turnover needs to be less than £150,000.

This total includes everything that you sell (products and services) that are liable for VAT in that year. This includes standard, reduced rate and zero rates sales or other supplies but excludes the actual VAT that you charge and exempt sales and sales of any capital assets.

You also need to be in a position where you do not claim back VAT on purchases because you cannot reclaim VAT back on purchases under the flat rate scheme. In addition if you regularly receive a VAT repayment under the normal VAT rules or make a lot of zero rated or exempt sales the scheme may not be right for you.

When raising a sales invoice you charge the full VAT rate (20%). However, as mentioned above you do not claim input VAT on any expenses. The VAT you pay to HMRC on the flat rate scheme is at a lower rate depending on the category of your business. You should receive a 1% discount for the first year of registration.

For example the current percentages for the following categories of business all differ:

Advertising 11%

Catering services, including restaurants and takeaways 12.5%

General building or construction services 9.5%

Printing 8.5%

Architect 14.5%

These are just a snippet of the business categories that exist.

What does it look like on paper?

1) As an architect you charge a client £200 + VAT (@ 20%) for services done.

You receive a total of £240 including the £40 VAT.

Under the flat rate scheme you pay 14.5% VAT or £34.80 to HMRC for this invoice.

Therefore you would save £5.20 in VAT on this transaction.

2) As a printer you charge a client £680 + VAT (@ 20%) for printing work done.

You receive a total of £816 including the £136 VAT.

Under the flat rate scheme you pay 8.5% or £69.36 to HMRC for this invoice.

Therefore you would save £66.64 in VAT on this transaction.

You may be able to claim back VAT on capital assets worth more than £2,000. Always check this and seek approval from HMRC.

You cannot join the Flat Rate scheme if:

You were in the scheme and left during the previous 12 months.

You are or have been within the previous 24 months eligible to join an existing VAT group or registered for VAT as a division of a larger business.

Your use one of the margin schemes for second hand goods, art, antiques and collectibles, the Tour Operators' Margin Scheme, or the Capital Goods Scheme.

You have been convicted of a VAT offence or changed a penalty for VAT evasion in the last year.

Or, your business is closely associated with another business.

If you are not sure then please do ask as this scheme is not appropriate for everyone. Those who do qualify certainly ought to be on it and we can help you with that as well. For those in doubt contact your accountant for advice.

VAT Rates – what is charged on what?

VAT is charged at the following rates:

- Standard rate, 20%

-Reduced rate, 5%

- Zero rate, 0%

- Exempt rate, no VAT

The standard rate is the most common rate of VAT. There are some things that are not charged at the standard rate. If we excuse the areas where a 5% charge is incurred, that leaves us with a Zero rate or an Exempt rate. This is important for the following reasons:

1. You cannot reclaim VAT if it has not been charged to you

2. If you sell something that is subject to zero rate VAT or exempt rate VAT then you should not charge VAT on your sales invoice.

So standards rated applies to the following:

- Alcoholic drinks
- Biscuits (chocolate covered only)
- Bottled water (inc. mineral water)
- Calendars & diaries
- Carbonated (fizzy) drinks
- CDs, DVDs & tapes
- Cereal bars
- Chocolate
- Clothes & footwear (not for children under 14)
- Confectionery/sweets
- Delivery charges (postage & packaging)
- Electrical goods
- Electricity, gas, heating oil & solid fuel (business)
- Food & drinks supplied for consumption on the premises (at restaurants, cafes etc)
- Hot take-away food & drinks (inc. burgers, hot dogs, toasted sandwiches)
- Ice cream
- Fruit juice & other cold drinks (not milk)
- Nuts (shelled, roasted/salted)
- Potato crisps
- Prams & pushchairs
- Road fuel (petrol/diesel)
- Salt (non-culinary)
- Stationery
- Taxi fares
- Tolls for bridges, tunnels & roads (privately operated)
- Water (industrial)

The following items are covered under a reduced rate which is 5% VAT:

- Children's car seats
- Electricity, gas, heating oil & solid fuel (domestic/residential/charity non-business)
- Energy saving materials (permanently installed in residential/charity premises)
- Maternity pads
- Mobility aids for the elderly
- Sanitary protection products
- Smoking cessation products

The following terms cover products, services, items or areas that are subject to zero rate VAT. This means that VAT is charged but at a zero rate:

- Aircraft (sale/charter)
- Bicycle & motorcycle helmets
- Biscuits (not chocolate covered)
- Books, maps & charts (not ebooks)

Bread, rolls, baps & pita bread
Brochures, leaflets & pamphlets
Building services for disabled people
Cakes (including Chocolate teacake, Jaffa Cakes)
Canned & frozen food (not ice cream)
Cereals
Chilled/frozen ready meals, convenience foods
Clothes & footwear (for children under 14 only)
Construction & sale of new domestic buildings
Cooking oil
Donated goods sold at charity shops
Eggs
Equipment for disabled people (inc. blind/partially sighted)
Fish (inc. live fish)
Fruit & vegetables
Live animals for human consumption
Meat & poultry
Milk, butter, cheese
Newspapers, magazines & journals
Nuts & pulses (raw for human consumption)
Prescription medicine
Protective boots & helmets (industrial)
Public transport fares (bus, train & tube)
Salt (culinary)
Sandwiches (cold)
Sewerage (domestic & industrial)
Shipbuilding (15 tonnes or over)
Tea, coffee & cocoa
Transport in a vehicle, boat or aircraft (not fewer than ten passengers)
Water (household)

The following is a rough guide to what areas are exempt, meaning there is no charge to VAT at all on their sale:

Antiques, works of art or similar
Burial or cremation (human)
Commercial land & buildings (selling/leasing/letting)
Cultural events operated by public bodies (museums, art exhibitions, zoos & performances)
Education, vocational training, research
Financial services (money transactions, loans/credits, savings/deposits, shares/bonds)
Funeral plan insurance
Gambling (betting, gaming, bingo, lottery)
Health services (doctors, dentists, opticians, pharmacists & other health professionals)
Insurance
Medical treatment & care
Membership subscriptions
Postage stamps
Postal services (Royal Mail/other licensed operators)

Sports activities & physical education

TV licence

Exports of goods: If you export goods please seek advice on what documentation you must keep to prove that you can zero rate the invoice you are planning to issue.

International services: The law is extremely complex here. If you supply services to someone outside the UK always seek advice from us, or HM Customs & Excise as to how to charge VAT on your invoice. The risk of a mistake in this area is very high, and can be very expensive. It is well worth checking.

Useful stuff you might not already know

- 1) Online submission gives you an extra 7 days for submitting your VAT return and you can pay electronically there and then
- 2) You can claim VAT on employee mileage
- 3) There is no VAT on postage or insurance