

VAT factsheet

What you need to know about VAT

What is VAT?

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

For more information go to www.hmrc.gov.uk/vat/start/introduction.htm

Keeping records and accounts

You need to keep complete and up to date business records and VAT records. You can keep your records on paper or on a computer, whatever is easiest for you. Just make sure that:

- you can work out your VAT correctly
- they are easily accessible, in case a HMRC officer visits you
- you keep the records for six years.

The type of records you keep will depend on the type of business you run.

For example, if you run a retail business you should keep a record of each day's takings the total VAT you charged and all of the till rolls. If you charge by invoice, you should keep a list of the invoices you issued, in date order, showing the VAT charged in a separate column. You should also keep copies of the invoices.

For business purchases you need to keep a record of your purchases, the VAT you were charged on them, and copies of the purchase invoices. Make sure you also do this for any petty cash purchases that you make - this is often overlooked.

If you use a tax adviser, agent or someone else to do your books, and you want them to speak to us on your behalf, please complete form 64-8 *Authorising your agent* and send it to HMRC. To download a copy of form 64-8, go to

www.hmrc.gov.uk/forms/64-8.pdf

For general advice about keeping records, refer to our tax helpsheet TH FS1 *Keeping records for business - what you need to know*, go to www.hmrc.gov.uk/factsheet/record-keeping.pdf

For VAT specific advice on keeping records, go to

www.hmrc.gov.uk/vat/managing/returns-accounts/accounts.htm

VAT rates

Once you are registered for VAT, you have to charge VAT on your sales. Charge the standard rate on all goods and services you supply, unless you know that they fall into another category. There are currently three rates of VAT:

- Standard rate - 17.5%
- Reduced rate - 5%
- Zero rate. This is not the same as being 'exempt' or 'outside of VAT'.

You must not charge VAT (or reclaim VAT) on goods and services that are exempt from VAT or outside the scope of VAT.

For full details, go to www.hmrc.gov.uk/vat/forms-rates/rates/rates.htm

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 we have also published guidance for consumers.

For more advice about VAT

www.hmrc.gov.uk/vat

0845 010 9000

Our Textphone number 0845 000 0200

Making VAT simpler

Businesses normally account for VAT when they invoice their customers and when they are invoiced by their suppliers. We operate a number of VAT accounting schemes that can save businesses time and money. They do this by reducing the amount of time you need to account for VAT and allowing you to account for VAT when you are actually paid by your customers, which can ease your cash flow.

Some of the VAT accounting schemes have been designed for specific trade sectors. Others have been designed to deal with more general business issues and some of the schemes can be used together.

Briefly, these include the schemes listed below.

- **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.
- **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, collectibles.** Prevent the financial disadvantage that businesses who sell second hand goods on which there is no VAT to claim back would otherwise experience.

If you would like to find out more about these schemes, go to www.hmrc.gov.uk/vat/start/schemes

Accounting for VAT – the VAT Return

If you keep your business and VAT records up to date then filling in your VAT Return should be simple. You will have to fill in a VAT Return (form VAT100) at the end of each 'VAT period' - usually every three months. The return tells HMRC:

- how much VAT you charged to your customers. We call this **output tax**.
- how much VAT you paid to your suppliers. We call this **input tax**.

If the total VAT you've charged is more than the total VAT you've paid, you must pay the difference to HMRC. If the VAT you've paid out is more than the VAT you've charged, HMRC will pay you the difference.

File your VAT Return online

We recommend that you file your return online and pay your VAT electronically. From 1 April 2010 all newly VAT-registered businesses will have to file online. From that date large businesses will need to file online too.

For more information and to register for VAT online, go to www.hmrc.gov.uk/vat/vat-online

To find out more about paying HMRC, go to www.hmrc.gov.uk and under *quick links* select 'Paying HMRC'.

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. However, there are some exceptions. For instance, you cannot reclaim the VAT if the goods or services you sell are exempt from VAT. **Make sure that you keep all required documentation, such as VAT receipts.**

The rules about business expenses sometimes differ between Income Tax and VAT. So you must 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.

Getting further advice about VAT

Go to www.hmrc.gov.uk/vat

Or phone **0845 010 9000** Monday to Friday 8.00am to 8.00pm.

If English is not your first language, please tell us when you call.

Textphone 0845 000 0200.

Os hoffech siarad â rhywun yn Gymraeg, ffoniwch 0845 010 0300, dydd Llun i ddydd Gwener 8.00am i 6.00pm.

Customers with particular needs

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are also available in large print.

Please contact us by phone if you need these services.

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 www.hmrc.gov.uk/contactus or you can find us in *The Phone Book* under *HM Revenue & Customs*.

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 VAT you paid:

- on goods you bought up to three 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 not-for-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 EORI (Economic Operator Registration and Identification) number.

For more information about reporting your EU sales using the EC Sales List, go to www.hmrc.gov.uk/vat/managing/international/esl/reporting-esl.htm

For more information about international trade, go to www.hmrc.gov.uk/vat/managing/international/

To find out about the EORI, go to www.hmrc.gov.uk/vat/managing/international/exports/goods.htm

Your rights and obligations

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

Putting things right

If you are unhappy with the way we have handled your affairs (because of delays or mistakes, for example) please tell the person or office you have been dealing with. If they are unable to sort things out, ask for your case to be referred to the complaints team.

For more information about our complaints procedures, go to www.hmrc.gov.uk and under 'quick links' select 'Complaints'.

These notes are for guidance only and reflect the position at the time of writing. They do not affect the right of appeal. Any subsequent amendments to these notes can be found at www.hmrc.gov.uk

Customer Information Team
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