



Howsons

Chartered Accountants

Taxation for Business

VAT

What is VAT?

Value Added Tax (VAT) is a tax that's charged on the supply of goods and services made in the UK by a VAT-registered business in the course or furtherance of business.

What is VAT charged on?

Businesses charge VAT on their sales. This is known as output VAT and the sales are referred to as outputs. The output VAT is being collected from the customer by the business on behalf of HMRC and must be regularly paid over to them

Similarly VAT is charged on most goods and services purchased by the business. This is known as input VAT. The input VAT suffered on the goods and services purchased can be deducted from the amount of output tax owed.

There are certain categories of input tax that can never be reclaimed, such as that business entertainment and on most business cars.

The difference between exempt and zero-rated is that if you sell zero-rated goods or services they count as taxable supplies (but at 0%) and you can recover any input tax charged.

Whereas any businesses making only exempt supplies cannot register for VAT and cannot therefore recover any input tax.

Rates of VAT

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

Do I need to register for VAT?

If you're a business and you make taxable supplies then you 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 £70,000); or
- you think your turnover will soon go over this limit

If you're business activities haven't crossed the registration threshold, you can still apply to register for VAT voluntarily. This would allow you to reclaim input VAT, which could result in a repayment of VAT if your business was principally making zero rated supplies

Taxable Person

A taxable person is anyone who makes or intends to make taxable supplies and is required to be registered. For the purpose of VAT registration a person includes:

- an individual
- a partnership
- a company
- a club
- an association
- a charity
- any other organisation or group of people acting together under a particular name, such as an educational or health institution, exhibition, conference, etc

If any individual carries on two or more businesses all the supplies made in those businesses will be added together in determining whether or not the individual is required to register for VAT.

Administration

To register for VAT you will have to complete one or more forms and submit them to HMRC for approval. You can also register for VAT online business to do this you will have to register as a user of HMRC Online Services or the Government Gateway.

Once registered you must make a quarterly return to HMRC showing amounts of output tax to be accounted for and of deductible input tax together with other statistical information.

For businesses whose turnover is more than £100,000 (excluding VAT) returns must be filed online for accounting periods that start on or after **1 April 2010**.

In addition, businesses which register for VAT on or after **1 April 2010** will have to file online, regardless of turnover.

From **April 2012** all remaining VAT registered businesses will be required to file returns online.

Returns must be completed within one month of the end of the period it covers, although generally an extra seven calendar days are allowed for online forms. Electronic payment is also compulsory for those businesses filing online.

Businesses who make zero rated supplies and who receive repayments of VAT may find it beneficial to submit **monthly** returns.

Record Keeping

It is important that a VAT registered business maintains complete and up to date records. This includes details of all supplies, purchases and expenses.

In addition a VAT account should be maintained. This is a summary of output tax payable and input tax recoverable by the business. These records should be kept for six years.

A VAT-registered customer must have a valid VAT invoice from the supplier in order to claim back the VAT they have paid on the purchase for their business. A VAT invoice must show:

- an invoice number which is unique and follows on from the number of the previous invoice
- the seller's name or trading name, and address
- the seller's VAT registration number
- the invoice date
- the time of supply (also known as tax point) if this is different from the invoice date
- the customer's name or trading name, and address
- a description sufficient to identify the goods or services supplied

For each different type of item listed on the invoice, you must also show the unit price or rate, excluding VAT, the quantity of goods or the extent of the services, the rate of VAT that applies, the total amount payable, excluding VAT, the rate of any cash discount and the total amount of VAT charged.

If you make retail sales and you make a sale of goods or services for £250 or less including VAT you can issue a simplified VAT invoice

Partners: James Eyre-Walker FCA
Suzanne Preston ACA FCCA
Alastair Kennedy FCA
Andrew Riley ACA
Stephen Eardley ACA FCCA
Nick Armstrong ACA
Chris Parry ACA FCCA

Registered to carry on audit work
and regulated for a range of
investment business activities by the
Institute of Chartered Accountants in
England & Wales

Leek: 01538 393600
Uttoxeter: 01889 563550
Newport: 01952 813330
Burslem: 01782 834775
Alsager: 01270 884314

Howsons Stoke
PO Box 165
Winton House
Stoke-on-Trent
ST4 2RW

Consultants: Malcolm Kerr FCA CTA
Robert Sunderland FCA

T: 01782 848838
F: 01782 744572
stoke@howsons.com
www.howsons.com

Inspection of Records

The maintenance of records and calculation of the liability is the responsibility of the registered person but HMRC will need to be able to check that the correct amount of VAT is being paid over. From time to time therefore a VAT officer will come and inspect the business records. This is known as a control visit.

Offences and penalties

HMRC have wide powers to penalise businesses who ignore or incorrectly apply the VAT regulations.

Penalties can be levied in respect of the following:

- late returns/payments
- late registration
- Errors in returns.

How we can help

It is essential that you comply with all the VAT regulations. We can assist you in a number of ways including the following:

- tailoring your accounting systems to record the VAT information accurately and quickly
- ensuring that your business is VAT efficient and that adequate finance is available to meet your VAT liability on time
- providing assistance with the completion of VAT returns
- negotiating with HMRC if disagreements arise and in reaching settlements
- advising as to whether any of the available schemes may be appropriate for you.

Call our Tax Specialists for more help

We have offices throughout Staffordshire. Our Tax specialists are:

Stoke Office – 01782 848838

James Eyre-Walker, Chris Parry, Vicky Hulse

Leek Office – 01538 393600

Suzanne Preston, Nick Armstrong

Burslem Office – 01782 834775

Andrew Riley

Uttoxeter Office – 01889 563550

Stephen Eardley

To email: initialsurname@howsons.com

(N.B. When addressing Leek Office, please replace .com with .net)

We believe the information contained within this fact sheet to be correct at time of going to press, but we cannot accept any responsibility for any damage or loss occasioned to any person as a result of action or refraining from action as a result of any item herein. This information sheet provides outline information only; you should always seek specific professional advice. April 2011.