



FAQ

Value Added Tax

What is VAT and when does it apply to me?

Value Added Tax (VAT) is a sales tax which must be charged on the sale of goods and services by all VAT registered businesses making taxable supplies in the UK.

If your business has a taxable turnover over £90,000 (as of October 2023), you must register for VAT. Businesses can also register voluntarily if their turnover is below this amount.

VAT is charged at a percentage of the value of goods or services supplied and there are various rates of VAT which depend on the type of supplies a business makes.



VAT is a notoriously huge and complex area and the above is merely a high-level introduction to the basic rules. VAT compliance becomes ever more complicated and errors are subject to a harsh penalty regime. We strongly recommend that you seek specific advice if VAT registration and compliance applies to your business.

VAT Rates

Once registered for VAT, businesses must charge VAT on their vatable supplies at the appropriate rate. In the UK, there are three main rates of VAT:

- **Standard Rate (currently 20%)**
The majority of goods and services fall into this category.
- **Reduced Rate (5% or other specific rates)**
Specific items such as domestic fuel and power, children's car seats, and some energy-saving materials fall under the reduced rate category.
- **Zero Rate (0%)**
Some goods and services are charged at 0% VAT such as most food items, books, newspapers, public transport, and exports. VAT is still applicable, but at a zero rate.

What are Vatable Supplies?

Vatable supplies encompass goods and services that are subject to VAT. Common vatable supplies include:

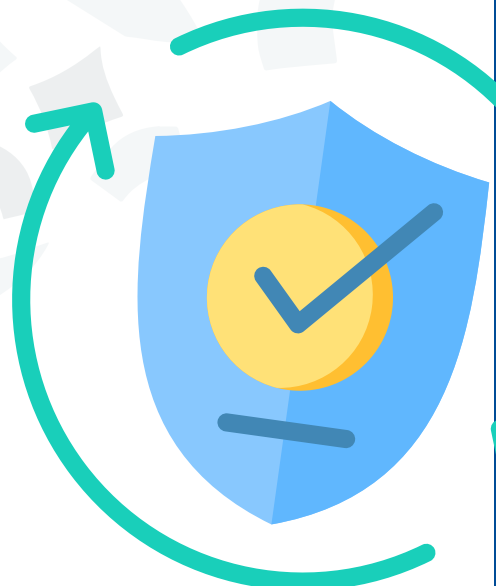
- **Sale of Goods**
Most products are subject to VAT, unless zero-rated or exempt.
- **Provision of Services**
Most services are subject to VAT, unless they fall under specific exemptions or reduced rates.
- **Imports**
Import VAT may apply. This is a very complicated area and specific advice should be taken.

VAT Administration and Compliance

All VAT Registered businesses must charge VAT (Output VAT) on all vatable supplies made. This VAT is effectively collected on behalf of HM Revenue and Customs (HMRC) and then paid over to them on a periodic, usually quarterly, basis.

VAT registered businesses can also reclaim VAT suffered on any business costs incurred (Input VAT) in the same period which can be deducted from the amount of Output VAT, with the difference being paid to HMRC.

Details of all Outputs and Inputs need to be sent to HMRC on the same periodic basis as above on a Form VAT100 – known as a VAT Return. Detailed VAT records making up these totals need to be maintained in the background and are usually maintained within the businesses accounting software. Making Tax Digital (MTD) rules means that all VAT Returns now need to be filed electronically.






Partial Exemption

Some businesses may provide both taxable and exempt supplies, leading to that business being caught by the partial exemption rules. This means that businesses can only reclaim VAT on expenses directly related to their taxable supplies. Partial exemption can be complex, and it is advisable to seek professional advice or consult HMRC guidelines for specific rules related to your business.

Blocked VAT

Blocked VAT refers to VAT incurred on certain expenses that businesses cannot recover. These expenses are typically incurred for non-business purposes or activities falling outside the scope of VAT. Examples of blocked VAT expenses include:

-  **Entertainment Expenses**
VAT on costs related to staff entertainment, corporate hospitality, and recreational activities.
-  **Non-Business Expenses**
VAT incurred on personal expenses or those unrelated to business activities, such as private vehicle costs.
-  **Exempt Supplies**
VAT incurred on expenses related to exempt supplies, as mentioned earlier.



If in doubt...

seek professional advice. Talk to us if you are unsure about any elements of VAT.

As we get to know your business and are able to offer proactive help and advice we may also introduce you to some of our business specialists that can offer services as diverse as payroll, recruitment, corporate finance and marketing. You get the expertise and skills your business needs with the reassurance of the Forrester Boyd name and reputation.

