

Introduction to VAT

What is VAT?

VAT is a tax on consumer expenditure. It is collected on business transactions, imports and acquisitions.

Most business transactions involve supplies of goods or services. VAT is payable if they are:

- supplies made in the United Kingdom (UK) or the Isle of Man
- by a taxable person
- in the course of a business
- are not specifically exempted or zero-rated.

What are the VAT rates?

There are 3 rates of VAT:

- a standard rate, currently 17.5%
- a reduced rate, currently 5%
- a zero rate.

Do these rates apply to all goods and services?

No. Some supplies are exempt from VAT, which means that no VAT is payable. Also supplies are outside the scope of VAT if they are:

- made outside the UK and Isle of Man
- not made in the course of business.

How can I find the VAT rate for a particular supply?

You can find details of which goods and services may be zero/reduced rated or exempt in [Notice 700: The VAT guide](#) and [Notice 701/39: VAT Liability Law](#). It also tells you where you can find additional information if you are unsure about the liability of a particular supply.

When must I register and start charging VAT?

The supply of any goods and services, which are subject to VAT at any rate are called taxable supplies whether you are VAT registered or not.

If the value of your taxable supplies is over a specific limit, you need to register for VAT, unless your supplies are wholly or mainly zero rated in which case you may apply for exemption from registration. The limits are shown in the [supplement to Notice 700/1: Should I be registered for VAT?](#) You may be charged a penalty if you register late. The easiest way to register for VAT is by using our [VAT Online Registration Service](#).

[Notice 700/1](#) also explains how to apply for:

- registration if the value of your taxable supplies is above the limit
- exemption from registration if your taxable supplies are wholly or mainly zero-rated
- exception from registration if you can show your future turnover will be below the 'deregistration' limit
- voluntary registration if the value of your taxable supplies is below the limit for compulsory registration
- registration when you make distance sales to the UK or relevant acquisitions into the UK
- voluntary registration when you make supplies outside the UK that would be taxable if made in the UK.

What happens after I've registered?

You need to charge VAT on all your taxable supplies from your date of registration and keep:

- a record of all standard-rated goods and services you supply or receive as part of your business
- a separate record of any exempt supplies you make
- a VAT account.

At preset intervals you need to fill in a VAT Return with details of your sales and purchases. You can do this [online](#) or using a paper return. If the VAT on your sales is more than the VAT on your purchases you pay us the difference. On the other hand, if the VAT on your purchases is more than the VAT on your sales you can claim the difference from us.

The Flat Rate Scheme for small businesses simplifies VAT accounting procedures to save you time and money.

You can find further information about the records you must keep in [Notice 700/21: Keeping records and accounts](#) and the [Flat Rate Scheme in Notice 733](#).

Further help and information

We have produced guidance covering various aspects of VAT:

[VAT for beginners](#)

[Notice 700: The VAT guide](#)

[Notice 700/1: Should I be registered for VAT?](#)

[Notice 700/15: The ins and outs of VAT](#)

[Notice 700/21: Keeping records and accounts](#)

[Notice 701/39: VAT Liability Law](#)

[Notice 733: The Flat Rate Scheme for small businesses](#)

If you are in any doubt or would like further help you can ring the [National Advice Service](#) on 0845 010 9000.