

If your business supplies goods or services exceeding £58,000 each year, you must register for value added tax (VAT). You'll have to charge VAT on your sales and pay it on most purchases. But don't be daunted — a lot of the paperwork is the kind of thing a well-run business should be doing in any case

# What VAT will mean for you

## What is VAT?

**Value added tax (VAT) is a tax on sales of goods and services. It is not a tax on profits. Businesses must register for VAT if they exceed the registration threshold**

Registration for VAT is compulsory for most businesses that supply goods and services amounting to more than £58,000 a year in any 12-month period (this threshold is valid for the 2004-05 tax year. Check [www.businesslink.gov.uk/figures](http://www.businesslink.gov.uk/figures) for any changes).

Businesses collect VAT on the Government's behalf. All businesses pay VAT on most purchases. This is called input tax. Registered businesses charge VAT on the goods and services they sell. This is output tax.

If a VAT-registered business receives more output tax from sales than it pays in input tax on purchases, it must pay the difference to Customs and Excise at fixed intervals (see **Next steps** below).

If more input tax has been paid than output tax charged, Customs and Excise will refund the difference to your business.

Businesses with a turnover below the £58,000 threshold can register voluntarily. Sometimes there can be a business advantage in doing this. For example, if your business pays a higher-than-average amount of

input tax and charges a lower-than-average amount of output tax, it could be worth registering to reclaim the input tax you have paid.

### Next steps

- *You must register with Customs and Excise if the value of your goods or services exceeds £58,000 in any 12-month period. You must do this within 30 days of reaching the threshold or you risk a fine. You must also register if you expect to exceed the VAT registration threshold in the next 30 days alone so you can immediately charge VAT on your invoices. Get Form VAT 1 from Customs and Excise: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)*
- *If you expect to charge less than £58,000 each year for your products or services but are considering voluntary registration, get further information from Customs and Excise on 0845 010 9000 — or seek advice from your accountant*
- *See Keeping VAT Records opposite*
- *For more information read: Should I Be Registered For VAT? (Notice 700/1). Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)*

## What VAT rate will I have to charge?

**The rate of VAT varies according to the type of product or service you offer**

Goods and services (supplies) are divided into four categories for VAT purposes. They can be:

- taxed at a standard rate (currently 17.5 per cent)
- taxed at a reduced rate (currently 5 per cent)
- taxed at a zero rate
- exempt from VAT

All goods and services that are not exempt are referred to by Customs and Excise as 'taxable supplies'.

Most VAT-registered businesses must add the standard rate of VAT to the value of their products and services when they are sold.

The reduced rate must be charged on: domestic fuel or power; installation of energy-saving materials; grant-funded installation of heating equipment, security goods or connection of gas supply; renovation and alteration of dwellings; residential conversions; women's sanitary products; children's car seats.

There are also specific rules on products and services that are zero-rated. In these areas, VAT is applied at 0 per cent. Businesses that offer zero-rated products or services can still reclaim the

## Check for changes in the law

Regulations, figures and sums of money may have changed since publication. Update check:  
0845 600 9 006  
[www.businesslink.gov.uk/figures](http://www.businesslink.gov.uk/figures)

input tax they have paid on purchases. Zero-rated products include: most food (but not meals in restaurants or cafes and hot takeaway food and drink); books; newspapers; young children's clothing and shoes; exported goods; most public transport services.

Exempt products and services include: insurance; providing credit; certain types of education and training; certain services from doctors and dentists; selling, leasing or letting land and buildings (but not garages, parking spaces or hotel and holiday accommodation).

Any business which offers some goods or services that are subject to VAT and some that aren't has 'partial exemption'. This means it can only reclaim input tax as a proportion of output tax charged. If your business will be dealing exclusively with exempt products or services, it is unlikely you will be able to claim back all your input tax.

### Next steps

- Check if your products or services are standard-rated, reduced-rated, zero-rated or exempt. Contact Customs and Excise National Advice Service: 0845 010 9000
- For more information read: *The VAT Guide (Notice 700)*; *Partial Exemption (Notice 706)*. Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)



*We registered for VAT from the start because I knew we would have had to within a month anyway. VAT and taxation scared me, but I decided it was easier to sort it out straight away*



Don Haddaway  
Artisiam Limited  
telecommunications  
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Oundle, Northants

## Keeping VAT records

**Being registered for VAT means that you must keep full and accurate records**

You must start keeping records and charging VAT to your customers from the date you know you have to be VAT-registered. Each invoice or receipt must show clearly the rate and amount of VAT charged and the VAT number given to your business by Customs when you registered. You must also ensure your VAT-registered suppliers do the same so you have evidence that you are entitled to reclaim the input tax you've paid.

You must keep copies of all invoices or receipts and a note of all the VAT you have charged and paid.

You have to fill in a VAT return — showing how much VAT you have received and paid — and forward payment of the balance to Customs and Excise. You must complete a VAT return for each accounting period. This is usually every three months, but if you expect the input tax you pay to be greater than the output tax you charge, you can make monthly returns. You will automatically be sent a VAT return form to fill in before each payment is due. You must return it to Customs and Excise no later than one month after the accounting period.

There is no set way to keep records, but they must be easy

## How I got to grips with my VAT returns

Anita McCullough opened her shop Anita's Fabulous Flowers in central Belfast in autumn 2000. She registered the business for VAT before she had turned over a single penny

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I'd worked in different florists over the years but before I had my own shop I'd never had to do a VAT return. So what I actually did when I first opened was be VAT-registered from the start.

That was so I could get to grips with the VAT system when the business was in a quiet phase. I wasn't worried about charging VAT on my sales because most of my competition were VAT-registered too.

It also helped when dealing with companies and larger organisations. Sometimes if you're not VAT-registered you're not taken that seriously by them.

I did go on a short course which went into some detail on VAT when I started my business, but my accountant still talked me through my first returns. It does feel a bit daunting at first but actually it's pretty straightforward if you're doing your book-keeping anyhow.

I do my books at the end of every quarter. I go through all my cheque books, my receipts and invoices. All my flowers and everything I buy has VAT included in the price so I work out the VAT on the gross amount that I've spent and do the same for sales in the shop. I add it all up and then balance the two together to work out what, in most cases, I owe.

Though actually, after my first return, Customs and Excise gave me money because I'd spent out on shelves and flooring and all those other things you need when you start off.

Now my turnover is such that I'd have to be VAT-registered anyway, but I'm pleased I started earlier than I had to. If I hadn't I wouldn't have been able to claim my rebate on the fixtures and fittings. And I have a good understanding of how it all works now anyhow.

I do my book-keeping every quarter and it takes me eight or so hours. But that's making a note of everything, not just

*Blossoming: Anita took the VAT route from the start*

working out VAT. I find it's easier to do it together and not have two separate sets of books.

Customs and Excise sends out VAT guidelines and there's a VAT helpdesk number you can ring.

The important thing is to adopt a methodical approach, double-check all the figures and hold on to your workings and calculations — they're always helpful for the next quarter. If you get too het up about these things it could really get to you. I've found that so long as you keep a record of everything you do everything is usually OK.



**Anita's Fabulous Flowers  
Belfast**

**Tel 02890 650500**

**[www.anitasfabflowers.com](http://www.anitasfabflowers.com)**



### You also need business advice

*This guide covers regulations. You should also read a guide to general business advice — from market research to writing a business plan*

for Customs and Excise to inspect whenever it asks to do so. Full records must also be kept for a minimum of six years.

### Next steps

- For more information read: *Keeping Records And Accounts (Notice 700/21)*. Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

## Accounting methods for VAT

**There are a number of methods you can use to account correctly for VAT. Choose the one that best suits your business**

Unless you arrange otherwise with Customs and Excise, your output tax must be entered on the next VAT return after you charge your customer — regardless of whether they have paid you or not. Similarly your input tax must be entered on the next VAT return after you are charged by your supplier, whether you have paid them or not.

However, there are a number of other accounting schemes that may suit your business:

- cash accounting
- the flat-rate scheme for small businesses
- specific retail schemes
- annual accounting

If the proportion of your turnover subject to VAT does not exceed £660,000 a year, your business can use the cash accounting scheme. This may be useful if your customers are slow payers. You only have to record your output tax on your VAT return after your customer has paid you and your input tax is only entered on your return when you have paid your supplier. You can change to this system at the beginning of any tax period. However, you must be careful to separate any output tax or input tax dealt with under your previous system. You don't need permission from Customs and Excise to use this scheme but there are certain conditions you must meet, set out in Notice 731 (see **Next steps** below).

The flat-rate scheme for small businesses is designed to reduce the time you spend accounting for VAT. It allows you to calculate your VAT payment as a fixed percentage of your turnover. The percentage depends on the type of business you are in. Businesses in the first year of VAT registration qualify for a one per cent reduction.

To be eligible for the flat-rate scheme, the proportion of your annual turnover subject to VAT must not exceed £150,000 and your total turnover must not exceed £187,500. You must apply by filling in Form VAT 600 (FRS). If you use this scheme, you will not be repaid any input tax as it is already allowed for as part of the percentage calculation.

A selection of specialist schemes are available to retailers who would otherwise find it impossible or costly to comply with standard VAT accounting rules. Specialist advice is available from Customs and Excise or your accountant.

The annual accounting system requires one VAT return to be filed each year. You can register for this scheme if:

- you have been trading for less than 12 months and the proportion of your annual turnover subject to VAT is not expected to exceed £150,000
- you have been registered for more than 12 months and the proportion of your annual turnover subject to VAT is not more than £660,000

Under the annual accounting system, VAT payments based on an estimate are usually made nine times each year, with a balancing payment due when you submit your return. By allowing you to pay a set amount each month, the scheme can help you manage your cashflow with more certainty — and you have two months to submit your return rather than one. Annual accounting can be used at the same time as the flat-rate scheme.

### Next steps

- Seek advice from your accountant or financial adviser if you are considering changing the VAT accounting scheme you use
- For more information read:



*Business Gateway in Lowlands*  
(0845 609 6611;  
[www.bgateway.com](http://www.bgateway.com));  
*Highlands & Islands Enterprise*  
(01463 234171; [www.hie.co.uk](http://www.hie.co.uk))

*Cash Accounting (Notice 731); Flat Rate Scheme For Small Businesses (Notice 733); Retail Schemes (Notice 727); Annual Accounting (Notice 732). Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)*

- *Customs and Excise will complete your application for the flat-rate scheme on your behalf. Contact 0845 010 9000*
- *Use an online ready reckoner to calculate flat-rate VAT payments. Contact [www.hmce.gov.uk](http://www.hmce.gov.uk)*

## VAT on imports

**If your business imports goods, there are a number of important VAT rules you'll need to consider. And in some cases, you may also have to pay import duty**

The regulations that govern VAT on imports into the United Kingdom are complex and businesses should seek advice from Customs and Excise. In general terms, VAT is payable on all imports at the same rate that would apply to the product or service if supplied in the UK.

It isn't necessary to register for VAT to import goods — but you won't be able to claim back any VAT you pay if you don't.

You must enter on your VAT return details of VAT on goods acquired from within the European Union (EU). This is known as acquisition tax.

However, you are entitled to reclaim input tax on the goods as if they were supplied in the UK subject to the normal rules.

For goods imported from outside the EU, import VAT and duty must be paid before the goods are released by Customs.

Duty is an additional tax, based on the value of imported goods. Duty varies according to type of product and country of origin. In some cases no duty may be payable. Customs and Excise can advise you on the rate of duty which applies to a particular product.

Duty cannot be reclaimed by VAT-registered businesses. There is no duty on goods which originate from an EU country or which have already been imported with customs charges paid. For example, when goods are supplied from the USA to Belgium, duty and other taxes are paid in Belgium. Once in the EU, the goods are in free circulation. If they later enter the UK, no customs charges are payable.

When importing goods from outside the EU, you can store them in an approved Customs warehouse if you don't intend to sell them immediately. VAT and import duty become payable when the goods leave the warehouse.

If you intend to re-export the goods after processing them, you can apply for Inward Processing Relief. VAT and duty only become payable if you sell the goods in the UK or fail to comply with the scheme's conditions.

If you import regularly, you can operate a deferment account,

settling your VAT and duty on a monthly basis. You may need a bank guarantee for this.

### Next steps

- *You can get further guidance from Customs and Excise. Contact 0845 010 9000; [www.hmce.gov.uk/business](http://www.hmce.gov.uk/business)*
- *The Customs and Excise Tariff Classification Service can provide rates of duty for particular goods. Contact 01702 366077*
- *For more information read: A Brief Guide To Import Procedures (Notice 501); Deferring Duty, VAT And Other Charges (Notice 101). Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)*

## VAT on exports

**Details of any exports you make must be entered on your VAT return. In many cases exports will be zero-rated for VAT**

Businesses in the UK that sell to VAT-registered businesses in other parts of the European Union (EU) must submit details of the transactions to Customs and Excise.

All export transactions should be recorded on your VAT return. If you have a high level of export trade with the EU, you may have to submit more detailed declarations, known as INTRASTAT Supplementary Declarations.

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*One of the most difficult aspects of starting a business is getting used to all the systems. I worried about VAT returns, but realised straight away that it would be best to get an accountant involved. Since then it's been much easier*

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Abi Williams  
Rude  
clothing and product  
designer  
London

If you export goods to a customer outside the EU and are VAT-registered, the goods are usually zero-rated for VAT although there are exceptions that you should check carefully. The supply of some services to overseas customers is also zero-rated, but many attract standard-rate VAT.

If you are VAT-registered and supply goods that are sent from the UK to a VAT-registered customer in another part of the EU, the transaction is usually zero-rated, although exceptions apply.

Complex rules surround exports and VAT. Check with Customs and Excise for advice.

#### Next steps

- You can get further guidance from Customs and Excise. Contact 0845 010 9000; [www.hmce.gov.uk/business](http://www.hmce.gov.uk/business)
- For more information read: *Exports And Removals Of Goods From The United Kingdom (Notice 703); The Single Market (Notice 725)*. Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

## VAT on business vehicles

**There are special rules for VAT on business vehicles — and the fuel used in them**

You can't normally reclaim the input tax you have to pay on a new motor car. However, VAT-registered businesses can claim it back if they can show the car is used 100 per cent for business purposes (a pool car kept on site, for instance). You must charge output tax if the car is sold later.

VAT incurred on the purchase of a commercial vehicle (a van, lorry or tractor, for example) can be reclaimed in full subject to the normal rules.

If the business pays for both private and business fuel, a fixed VAT charge is applicable based on the size of the vehicle (this is called the fuel scale charge). This allows the business to reclaim VAT on both the business and private elements of the fuel.

If the business does not pay for private mileage, a scale charge does not apply and VAT may be reclaimed on fuel bought for business provided you keep a detailed record of business mileage.

If you lease a car for business purposes, VAT may be reclaimed on 50 per cent of the lease charge.

#### Next steps

- See *Business Vehicles And Tax*, page 21
- For more information read: *Motoring Expenses (Notice 700/64)*. Contact Customs and Excise National Advice Service: 0845 010 9000; [www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)