



This factsheet is designed to give a brief overview of Value Added Tax (VAT).

VAT is a tax charged on most goods and services in the UK when the supplier is VAT registered, it is also charged on goods and some services brought into the UK from other countries.

When a VAT registered business makes a supply of goods or services (whether to another business or an individual) VAT is normally charged with very few exceptions to this. When a VAT registered business buys goods or services they can generally reclaim the VAT they have paid.

There are three rates of VAT, depending on the goods or services the business provides. The rates are:

- Standard - 20%
- Reduced - 5%
- Zero - 0%

There are also some goods and services that are:

- Exempt from VAT - Insurance costs for example
- Outside the UK VAT system altogether - Services supplied to another EU country (subject to qualifying criteria) for example.

When must you register for VAT?

If you are in business (whether as a Limited Company, sole trader etc.) then you must register for VAT if the value of your taxable supplies meets one of the following:

- Your turnover for the previous 12 months has gone over the 'VAT threshold' which is currently £77,000
- You think your turnover in the next 30 days alone will go over this limit.

You must notify HMRC of your liability to be registered for VAT within 30 days following the last day of the month in which you first met one of the above criteria. Failure to do so may render you liable to penalties/interest and VAT on sales that you may not have actually charged VAT on.

You can also voluntarily register for VAT even if you do not meet one of the criteria above, this can be beneficial if you are making a large amount of zero rated supplies so you can receive regular repayments of VAT, or more commonly, have a low amount of VAT charged expenses in which case the Flat Rate Scheme may well generate a saving for your business (see our Flat Rate VAT Factsheet on this area).

VAT Schemes

There are different schemes other than standard VAT, briefly explained below:

Flat Rate Scheme - You pay a fixed percentage of your gross invoice over to HMRC each quarter

Cash Accounting Scheme - You pay VAT over to HMRC based on the invoices paid in the quarter

Annual Accounting Scheme - You pay a set amount of VAT monthly and complete a VAT return each year.

For more details on any of these schemes please contact us.

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