

Value Added Tax (VAT)

Two types:

- Output VAT – VAT charged on sales and/or services to the customer
- Input VAT – VAT charged on Purchases and/or services to your business

VAT is chargeable:

- In the United Kingdom only
- On taxable supply
- By a taxable person

Taxable Supply

Is broken down into three main Categories:

1. **Exempt Supply** – Common examples include Insurance, postal services & Financial Services

Note* If this is the trade of your business then you cannot register for VAT & cannot reclaim any input VAT.

2. **Outside the scope of VAT** – Common examples include Wages, dividend, other taxes (eg. road tax for your business vehicle)

Note* There is no option to claim back VAT as they are outside the scope of VAT

3. **Taxable supply** - This is further broken down into two headings

- a) **Zero-rated supply** – Common examples include Baby clothing, Newspapers, Luxury food, medicine etc.

Note* If operating a business in this category then your sales would be zero rated therefore no output VAT to charge you customer (and pay over to HMRC,) and VAT paid to suppliers for goods/services for example would be reclaimable.

- b) **Standard rated supply** – Is deemed to be everything else other than that mentioned above. There is a standard rate of 20% and the reduced rate is 5%

Taxable Person

A taxable person is someone who is registered for VAT or required to be registered for VAT

Two types of registration

1. **Compulsory registration** – Registration is a must once the threshold for taxable supplies is exceeded (above £70,000)

The figure of taxable supplies is calculated by:

- Standard rated + reduced rated + Zero rated
- The figure is the net amount, exclusive of VAT and capital items

2. **Voluntary registration** - when you register by choice not by requirement.

Benefits include, enhances the perception of the business (gives a bigger profile,) can claim input VAT & if zero rated supplies

Drawbacks – increase admin work (as you need to carry out the return) & you need to start charging VAT to customers.