

# VAT guide

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## What is VAT?

**VAT or, Value Added Tax, is a tax that is charged on most goods and services that VAT registered businesses provide in the UK.**

Unlike other taxes, VAT is collected on behalf of HMRC by registered businesses. Once you're registered for VAT, you must charge the applicable rate of VAT on any services you provide, or products you sell.

There are three VAT rates currently – the standard rate (20%), a reduced rate (5%), and zero rate. Some items are completely exempt from VAT.

If your business turns over more than £79,000 over a 12 month period (or if you expect to turnover that amount over the next 30 days), then you will need to register for VAT.

Even if you fall below the VAT threshold, there may be benefits to register voluntarily – it may be that in your industry, being VAT registered adds a more professional touch, or if you make a lot of purchases, you may want to reclaim the value of VAT on these items.

Each quarter, all businesses that are VAT registered must account for all the VAT they have charged to others, or paid out to suppliers and since 1 April 2012, all businesses are now required to submit their VAT returns online.

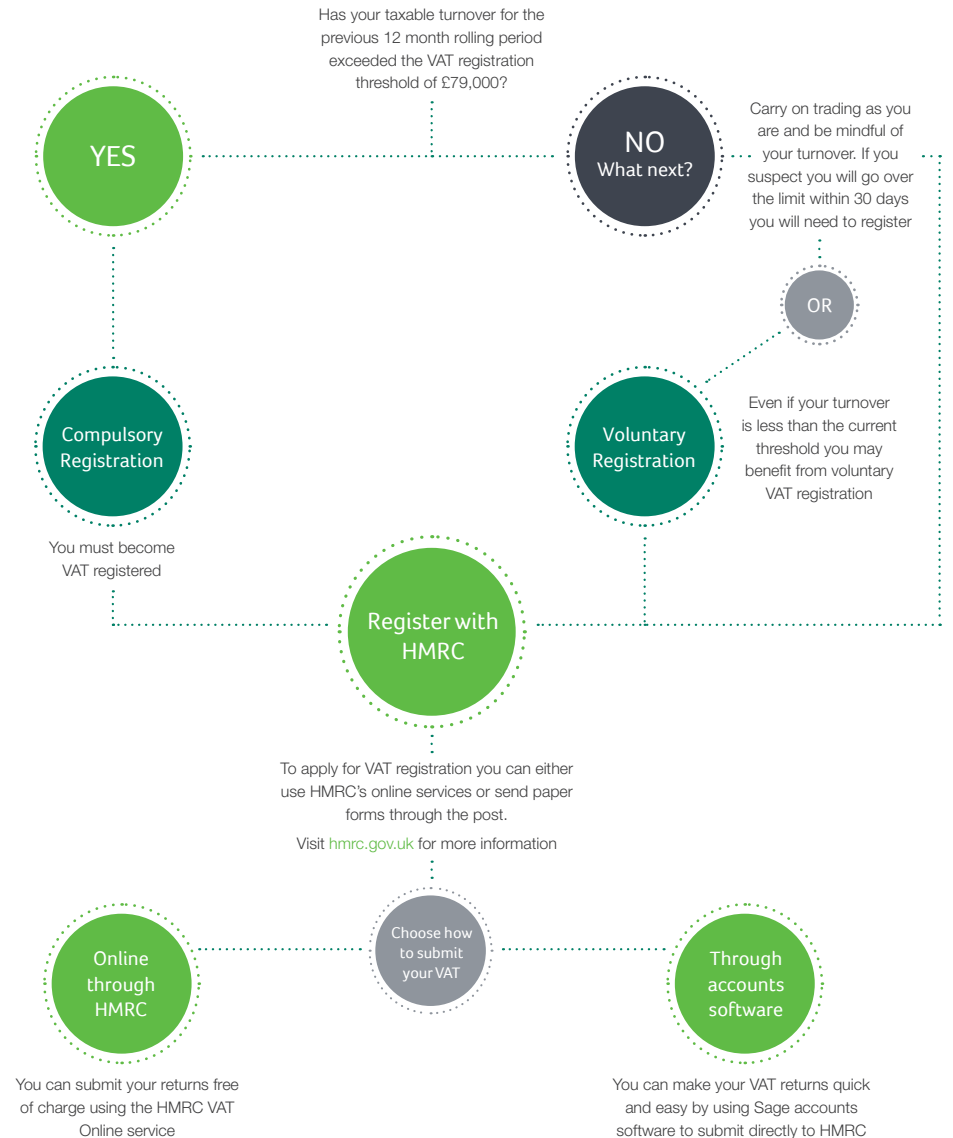




Follow our flow chart on the opposite page to find out if you should be VAT registered

## Registering for VAT

If you're a business and the goods or services you provide count as what's known as 'taxable supplies' you may have to register for VAT.



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## VAT Schemes

When you become VAT registered you'll be assigned to the Standard VAT scheme; however, there are other schemes available, depending on your business' turnover. It may be beneficial to use one of these schemes, depending on the specific circumstances of your business.

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### 01.

#### Standard VAT

##### What is it?

This is the default scheme you will be assigned to unless you state otherwise, it is known as the Standard VAT scheme.

On this scheme you are able to reclaim VAT at the point an invoice is received from your supplier, for example, before you've actually paid the money. You'll also be liable for the VAT on sales at the point you send an invoice to your customer, (even before you've received the money from them). This means if a customer doesn't pay the money, you'll need to account for the 'bad debt', once the invoice has been outstanding for six months.

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### 02.

#### Flat Rate Scheme

##### What is it?

The Flat Rate Scheme is designed to help small businesses reduce the amount of time they spend accounting for VAT. Using this scheme you don't have to calculate the VAT on each and every transaction. Instead, you simply pay a flat rate percentage of your turnover as VAT.

##### What are the advantages of this scheme?

- Record keeping is easier with fewer rules to follow
- You can be confident of how much you will need to pay

The percentage is less than the standard VAT rate because it takes into account the fact that you're not reclaiming VAT on your purchases. There's a range of flat rate percentages; the one you use depends on your trade sector. HMRC will advise you of the rate applicable to your business when you register.

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### 03.

#### Cash Accounting Scheme

##### What is it?

Usually VAT is payable when an invoice is issued. Using the Cash Accounting Scheme, you don't need to pay VAT until your customer has paid you, but, you will also need to consider that you can't reclaim VAT on your purchases until you have paid for them.

##### What are the advantages of this scheme?

- It's good for cash flow especially if your customers are slow to pay
- It's even more useful if you have bad debts
- You don't pay the VAT if your customer never pays you

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### 04.

#### Annual Accounting Scheme

##### What is it?

Using this scheme, you pay the VAT owed throughout the year in nine monthly or three quarterly instalments. These instalments are based on the VAT you paid in the previous year. If you have been trading for less than a year, the instalments are based on an estimate of your VAT liability.

##### What are the advantages of this scheme?

- Less paperwork involved because you only need to complete one annual return
- It can make it easier to manage your cash flow



You'll need to submit a VAT Return, usually every 3 months.

## Submitting VAT

If you're VAT registered you'll need to submit a VAT Return at regular intervals, usually every 3 months. This period of time is known as your 'accounting period.'

### The return shows:

- The VAT you've charged on your sales to your customers in the period - known as output tax
- The VAT you've paid on your purchases to your suppliers in the period - known as input tax
- If the output tax is more than the input tax, for example, if you have sold more than you've bought; you pay the difference to HMRC.
- If the input tax is more than your output tax, for example, if you have bought more than you've sold; you claim the difference back from HMRC.
- You must send a VAT Return even if you have a nil return (no VAT to pay or reclaim)

### Sending the return

All VAT returns must be sent online, as part of the VAT registration process a VAT online account (or Government Gateway account) is created. There are a number of alternative methods available to complete the online submission process:

#### HMRC's free online service

Log in to your VAT online account at <https://online.hmrc.gov.uk> and manually enter the values for seven VAT boxes.

#### Software you can buy (e.g. Sage Accounts)

HMRC has a list of approved software you can use to send your VAT Return directly to the Gateway. Using this method the values from the software are transmitted directly to your VAT online account, with no need to manually enter values.

#### Using accountants or agents

You can authorise an agent or your accountant to submit your VAT return on your behalf. This is done via your VAT online account, and must be completed before the return is submitted for you.

You must pay VAT to HMRC electronically with the vast majority doing so via direct debit. Remember, although it's 'your' VAT return, it isn't your money that you are paying to HMRC, it's the tax you've collected from your customers minus the tax you've paid to your suppliers.

## Staying compliant

### Keeping VAT records

You must keep VAT records for at least SIX years. You can keep them on paper, electronically or in software. Records must be accurate, complete and readable.

If you've lost a VAT invoice you can't rely on a photocopy. Ask the supplier for a duplicate (marked 'duplicate').

You must keep a separate record of the VAT you charge and the VAT you pay on your purchases. This record is called a 'VAT account'. There aren't any rules on what a VAT account should look like, but it must show:

- Your total VAT sales
- Your total VAT purchases
- The VAT you owe HMRC
- The VAT you can reclaim from HMRC
- If your business uses the VAT Flat Rate Scheme - the flat rate percentage and turnover it applies to
- The VAT on any EU acquisitions (purchases) or dispatches (sales).

### VAT invoices

The following 13 elements must be included on an invoice for it to comply with VAT regulations:

- Unique invoice number that follows on from the last invoice
- Your business name and address
- Your VAT number
- Date
- The tax point (or 'time of supply') if this is different from the invoice date
- Customer's name or trading name, and address
- Description of the goods or services
- Total amount excluding VAT
- Total amount of VAT
- Price per item, excluding VAT
- Quantity of each type of item
- Rate of any discount per item
- Rate of VAT charged per item - if an item is exempt or zero-rated make clear no VAT on these items.

## Deadlines

Usually VAT invoices must be sent within 30 days of the date of supply or the date of payment (if you're paid in advance).

30  
days

## VAT visits and inspections

VAT officers can visit your business to inspect your VAT records and make sure you're paying or reclaiming the right amount of VAT. They normally give you seven days' notice and will confirm what information they'll want to see and if they want to inspect your premises. Before a VAT inspection you should make sure that all your VAT records are in order.

### How often you get a visit depends on:

- How big or complex your business is
- Whether your VAT Returns have been late or incorrect.

### After the inspection, HMRC will write to you confirming:

- What you must do to improve your VAT record keeping
- Any corrections you must make to your VAT account
- If you're overpaying or underpaying your VAT.

**You can appeal a HMRC decision but you must do it within 30 days.**

## Top VAT terms explained

Term	Meaning
Accounting period	See tax period
Acquisitions	Goods brought into the UK from other EU countries
Distance sales	Where a business in one EU country sells and ships goods directly to consumers in another EU country, e.g. internet or mail-order sales
Exports	Goods sent to a non-EU country
Despatches	Goods sent to another EU country
Imports	Goods brought into the EU from another country
Input tax	The VAT you pay on your purchases
Notional VAT	The equivalent VAT value from EU purchases
Output tax	The VAT you charge on your sales
Place of supply	The country in which a supply of goods or services must be accounted for VAT purposes
Supply	Selling or otherwise providing goods or services, including barter and some free provision
Supply of goods	When exclusive ownership of goods passes from one person to another
Taxable person	Any business entity that buys or sells goods or services and is required to be registered for VAT
Taxable supplies	All goods and services sold or otherwise supplied by a taxable person which are liable to VAT at the standard, reduced or zero rate
Taxable turnover	The total value - excluding VAT - of the taxable supplies you make in the UK
Tax period	The period of time covered by your VAT Return, usually quarterly
Tax point	The date when VAT has to be accounted for - for goods, this is usually when you send the goods to a customer or when they take them away, for services, this is usually when the service is performed
Time of supply	See tax point
VAT account	A detailed record of the VAT charged and claimed



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## Sage on VAT

We know that VAT is a big pain point for many small businesses and one that causes much confusion and can sometimes keep you awake at night, but it doesn't have to.

At Sage we're here to help take some of that pain away, whether that's worrying about whether you need to be VAT registered or wondering how it all works we're here to support you through it.

All of our accounts software is designed to help you manage, process and submit VAT quickly and easily, giving you more time to focus on your business.

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### For more information:

Visit [www.sage.co.uk/vat](http://www.sage.co.uk/vat)

New customers **0800 44 77 77**

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Sage (UK) Limited, North Park,  
Newcastle upon Tyne, NE13 9AA

[www.sage.co.uk](http://www.sage.co.uk)

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