



# UK Expansion Guides

## VAT in a Nutshell



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# What is Value Added Tax?



Businesses who plan to trade in the UK should consider the implications of Value added Tax (VAT) from the outset, as VAT can often get complicated.

VAT is an indirect tax, levied by the government on sales of goods and services and is charged at each stage of the supply chain. VAT may also be charged on imports to the European Union (EU), where goods are brought through customs across the EU border.

VAT is normally borne by the final consumer, because VAT registered businesses can normally reclaim the VAT that they have been charged by suppliers, which means that VAT is not normally a cost to the business.

## When should I register for VAT?

All businesses who make taxable supplies in the UK must register for VAT once they exceed the annual registration threshold, which in most situations is £83,000\*. For overseas traders, even if they are non-resident, the obligation to register can take effect in different situations and is often triggered by buying services from abroad, rather than selling goods or services. This can lead to a VAT registration being required before the annual registration threshold is reached. In other cases, the overseas traders may find that the VAT registration threshold can be as low as £1. As the most complicated of all UK taxes, most businesses seek professional advice when it comes to dealing with VAT.

There is also an option to register for VAT voluntarily and many small or new companies do this to gain credibility with suppliers, to reclaim input tax, and also to avoid missing the compulsory registration date.

# How VAT works

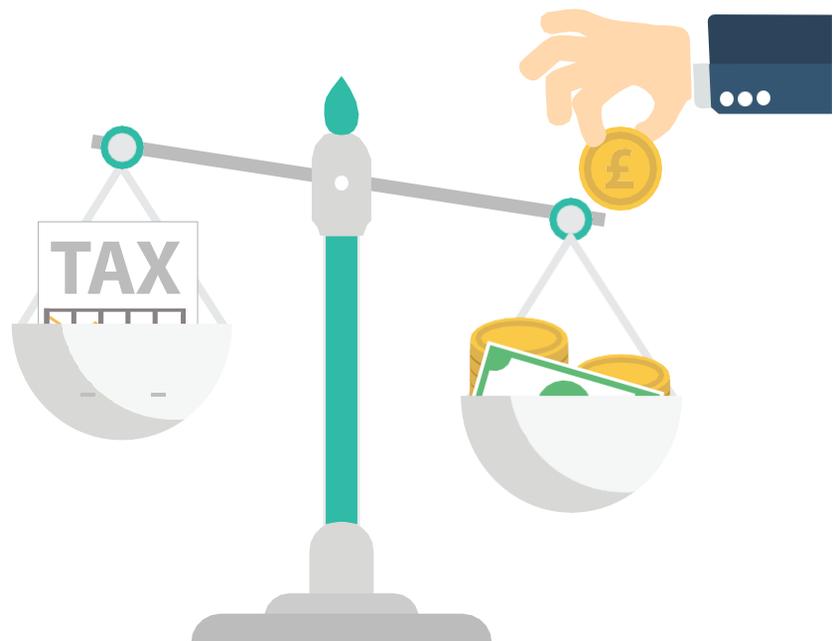
Once registered VAT at the appropriate rate, called “Output VAT” must be added to taxable supplies that the business makes. Any VAT incurred in making purchases in the course of its is called “Input Tax”, and generally can be reclaimed by deducting the input tax from the output tax. The Net VAT amount is then paid to the tax authority, or refunded by them, if this has generated a VAT refund.

## Reclaiming VAT

VAT-registered businesses can usually reclaim the VAT they've paid on business purchases and expenses. The VAT must be incurred in the course of a business activity and any private use element must be deducted from the claim.

VAT records must be kept to support the claim and show that the VAT was paid by the business.

Exceptions - You normally can't reclaim the VAT on entertainment expenses and there are special rules for reclaiming VAT on things like car expenses and staff travel expenses.



## Reclaiming VAT incurred in other European Countries

The electronic cross-border refund system enables a business that incurs VAT on expenditure in another European member state, where it is not established and makes no supplies, to recover that VAT directly from that Member State.

There are two electronic refund schemes.

- One for businesses established in the EU
- and the other for businesses that are not established in the EU

Unless a business is registered for VAT in the EU, it cannot treat VAT incurred as input tax, but you may be able to use these schemes to reclaim VAT charged on imports into the EU, or purchases of goods and services used in the EU.

Requests for refunds are dealt with by the Member State of Refund. The amount refundable will be determined under the deduction rules of the Member State of Refund and the relevant repayment will be made directly by that Member State to the business.

# The VAT Return

Most VAT registered businesses will file an electronic VAT return online quarterly. Supplementary returns may also be required in some circumstances and are usually filed monthly or quarterly. The deadline for submitting the VAT return online and paying HMRC are usually the same - 1 calendar month and 7 days after the end of an accounting period.



## UK VAT Rates

The UK has three rates of VAT and the applicable rate depends on the goods or services being supplied.

## The UK's VAT rates are currently:

20%

Standard  
Rate

5%

Reduced  
Rate

0%

Zero  
Rate

The **standard rate of 20%** at which most goods and services are charged.

The **reduced rate of 5%** when this rate is applicable can depend on what is being supplied, as well as the circumstances of the sale. Examples are children's car seats, which are always charged at the reduced rate, whereas the rate that applies to the installation of energy saving products, or renovating certain buildings will depend on whether additionally certain conditions are met.

The **zero rate** may be zero, but it is still charged at 0% and again the circumstances in which the supply is made can be relevant to the VAT rate charged. Goods that are exported and supplied to VAT registered EU businesses, as well as some food, books and children's clothes are normally charged at the zero rate of VAT.

Some goods and services may be exempt from VAT, or outside the scope of the UK VAT system and often businesses who make supplies at these rates cannot reclaim VAT they incur in making those sales, although there are exceptions. The supply of financial services is normally exempt from VAT and such businesses can be wholly or partially exempt. A complicated set of VAT rules exist for such businesses and the calculation is normally performed by specialist tax advisers.

# Cross Border Trading



Companies that make taxable supplies across international borders need to be aware of factors such as each party's place of belonging, to determine the correct VAT treatment. In some circumstances, where goods and services are supplied overseas, VAT does not need to be charged but the business may still have other obligations, such as completing supplementary declarations like Intrastat returns and EC Sales lists.



## Getting VAT Right

The burden to get the VAT right and meet all the compliance obligations is on the company and the tax authority will do regular reviews and inspections of VAT records. Where errors are found, companies are expected to pay the underpaid VAT and additionally they may be subject to penalties, which can reduce profit margins substantially, especially if the error continues undetected for a long time.

## How We Can Help

- ✓ We take care of VAT registrations and deal with the ongoing regular compliance of completing VAT returns and supplementary returns, such as Intrastat and EC Sales lists
- ✓ We carry out regular reviews of our client's VAT records to avoid inadvertent underpayments and ensure that our clients are aware of any supplementary returns they must complete.
- ✓ We communicate with the tax authority and prepare records for VAT inspections and answer queries from the tax office
- ✓ We give advice on, how transactions should be treated for VAT purposes, the correct invoicing procedure, and how to avoid unnecessary administrative burden and unrecoverable VAT.
- ✓ We can recover VAT incurred overseas, improving your cash flow instantly, or register your business for VAT in another EU country. VAT recovery fees are normally only charged on a successful reclaim.

## Get in Touch...

Contact us for specific advice on VAT Registration, VAT Recover, Transactional matters and Import queries.

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