

Surviving VAT



Except for the very smallest companies, VAT is an inescapable fact of business life. The rules and regulations surrounding VAT can be quite complicated, but knowing what the basic rules are and putting systems in place to track and pay VAT will help you avoid inspections and penalties. Complying with the disciplines of the VAT regime can also help you stay on top of the paperwork you need for managing other aspects of the business.

This Sage white paper rounds up all the regulatory essentials you need to know.

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What is VAT?

Value Added Tax, or VAT, is a tax on most business transactions and imports in the UK or Isle of Man, other than those which are specifically exempt. It applies to both goods and services. Transactions which are subject to VAT are called 'taxable supplies'.

Some examples of taxable supplies


- Selling new or used goods, including hire purchase
- Renting and hiring out goods
- Providing a service, such as hairdressing or decorating
- Charging admission to enter buildings
- Using business stock for private purposes

The value of your taxable supplies is called your 'taxable turnover'.

VAT does not apply to certain 'exempt' supplies, for example:

- Loans of money
- Insurance
- State-registered education and training, including nurseries
- Most sales and leases of land and buildings (with a number of exceptions, e.g. commercial property up to three years old, hotel and holiday accommodation)
- Postal services supplied by the Post Office

If you only make exempt supplies you cannot register for VAT. If you make a mix of taxable and exempt supplies you may have to register for VAT and calculate your quarterly VAT liability on a 'partial exemption' basis. This is a very complex area and you should seek professional help if it affects your business.



HMRC has some basic
guidelines at
www.hmrc.gov.uk

Do I have to register for VAT?

It is compulsory to register for VAT if:

- a) Your taxable turnover exceeded a set limit in the 12 months to date, or, in exceptional circumstances, you have reasonable grounds for expecting to do so in the next 30 days alone.
The limit is set in the Budget each year;
- b) The value of your imports of goods from other EU countries exceeded the same threshold; or
- c) You have taken over a VAT-registered business as a going concern.

You have 30 days to notify HM Customs & Revenue (HMRC) that you are liable to register, and they will register you from the start of the next month. Here's a typical scenario:

Your turnover of goods and or services (ignoring exempt categories) first exceeds the registration threshold in the 12 months up to 31 May. You then have until 30 June to submit your VAT registration form VAT1 to HMRC and they will register you from 1 July. From 1 July you will have to start accounting to HMRC for VAT on your sales.

Registration also means that you can reclaim the VAT on the goods and services you buy in your business. This can be advantageous, so you are allowed to register voluntarily if you are in business making taxable supplies but have not yet hit one of the three compulsory registration triggers (a) to (c) above. You need to balance against this the administrative burden of keeping more detailed records and having to submit quarterly VAT returns, but it may be worth your while, especially if all your customers or clients are VAT registered and can therefore reclaim the VAT you charge them.

Certain supplies are currently subject to a zero rate of VAT. These include food, books, children's clothing and new houses. You still have to submit a VAT 1 if your zero-rated turnover exceeds the annual registration limit, but you can ask HMRC on the form to exempt you from registering. However, registration in such cases means that you can reclaim all the VAT on your purchases and expenses but you don't have to charge any VAT on your sales. Farmers and new house builders will often be VAT-registered for this reason, and since their VAT repayments can be quite large they can opt to submit VAT returns monthly to accelerate the repayment of VAT to the business.

To register for VAT go to the HMRC website at www.hmrc.gov.uk/VAT where you can either print Form VAT 1 and the guidance notes, or register immediately online. You can also request a registration form on the free telephone National Advice Line 0845 010 9000. The website or guidance notes will tell you where to send the form.

The screenshot shows a software-generated VAT return form titled "Value Added Tax Return - NEW". The form is for Sage (UK) Ltd, located at North Park, Newcastle Upon Tyne. The period is set to "xx/xx/xx" to "xx/xx/xx". The form contains the following data:

Description	Box	Value
VAT due in this period on sales	1	83417.45
VAT due in this period on EC acquisitions	2	4176.23
Total VAT due (sum of boxes 1 and 2)	3	87593.68
VAT reclaimed in this period on purchases	4	64287.36
Net VAT to be paid to Customs or reclaimed by you	5	23306.32
Total value of sales, excluding VAT	6	616132.33
Total value of purchases, excluding VAT	7	143623.52
Total value of EC sales, excluding VAT	8	134098.83
Total value of EC purchases, excluding VAT	9	23864.16

At the bottom of the form, there are buttons for "Calculate", "Adjustments...", "Reconcile", "Print", "Clear", "Include Reconciled" (with an unchecked checkbox), and "Close".

Example of a VAT return form.

Online submissions

It is now mandatory for most businesses to submit their VAT returns online to HM Revenue & Customs. And this must be done online and on time to avoid penalties. Our accounts software allows you to submit your returns directly, the easiest way to stay compliant. Find out more about how our accounts software can help submit VAT returns online at

<http://shop.sage.co.uk/accountssoftware.aspx>

Inputs, Outputs and Returns

VAT has its own jargon that you'll need to learn. Your sales are called your 'Outputs', because they represent the output from your business. The goods and services you buy are called your 'Inputs' as these are the inputs into your business process.

Once you are registered for VAT you will need to keep accurate records of your Outputs and Inputs and the VAT on each (referred to by HMRC as Output Tax and Input Tax), calculate the net VAT payable to HMRC or repayable to you, and send in a VAT return every three months. You have a month after the end of the quarter to file the return and pay any VAT due. If you register with HMRC at <https://online.hmrc.gov.uk/registration/> you can file your VAT returns online and pay the VAT due by direct debit, and as an extra benefit you get an extra seven days to do so. Online filing means that you can be sure the return arrives on time and avoids the risk of a late filing surcharge.

If you file your VAT return through the post you will need to allow additional time. VAT payments sent in the post are not acknowledged as received by HMRC until the funds have cleared. The potential of delays in the postal service should also be taken into account. You will be liable to a late payment surcharge if funds have not cleared by your VAT due date.

You need to keep copies of your all sales invoices and make sure you have a valid VAT invoice, made out to your business, to support the Input Tax you are reclaiming. You should be prepared for HMRC to visit you to make a spot check on your record keeping, part of which will usually involve the detailed checking of every item making up the figures on a recent VAT return. They can charge penalties and interest if they find you have underpaid VAT. If you use an accountant it's well worth while asking them to check your VAT records and makes any recommendations for improvement - it could save you money in the long run.

The overseas connection

While VAT applies mainly to supplies made in the UK, that's not quite the whole story. VAT applies across the whole of the EU, although each country sets its own rates and rules.

If you are VAT-registered and buy goods or services from an EU supplier you have to show the value of these goods as an 'acquisition' on your next VAT return and account for Output tax (as if you had sold the goods to yourself) - but you also reclaim the same amount as Input tax on the same return, so there is no net cost to you. This information simply allows the UK Government to track trade within the EU in the absence of border controls on most intra-Community transactions.

Likewise, sales of goods and services from the UK to an EU customer registered for VAT in their own country is zero rated provided the UK supplier quotes both his own and his customer's VAT number on the sales invoice. The customer then accounts for VAT in his own country, as above. If the customer is not registered for VAT they are charged the normal UK rate of VAT.

EC Sales List

All VAT registered businesses who supply goods and or services to a VAT registered customer in another European Union country, must complete an EC Sales List and submit it to HM Revenue & Customs. Find out more about submitting EC Sales Lists.

<http://www.hmrc.gov.uk/vat/managing/international/esl>

Sage (UK) Ltd North Park Newcastle Upon Tyne Tyne & Wear NE13 9AA		Invoice	Page 1		
VAT Reg No: 761 9013 11					
Sage France Immeuble le Colisée II 10 rue Fructidor 75834 Paris CEDEX 17			55601 XX/XX/XX		
VAT Reg No: X1234567890			SAGFRA		
Quantity	Details	Unit Price	Net Amount	VAT Rate	VAT
1.00	Sage 50 Accounts 2011	1,000.00	1,000.00	XX%	XXX.XX
		Total Net Amount			1,000.00
		Carriage Net			0.00
		Total VAT Amount			XXX.XX
		Invoice Total			XXX.XX

Example of sales invoice showing EU customer address and VAT number.

If you make sales to VAT registered customers in the EU you will also have to submit details on an 'EC Sales List' each quarter as well as a VAT return.

Making VAT Simpler

Because VAT returns have to be submitted quarterly they represent quite a burden for businesses. The Government has introduced a number of schemes to make life easier, especially for smaller businesses:

Annual accounting

This enables you to pay a fixed estimated monthly or quarterly amount towards your VAT liability and submit just one VAT return at the end of the year along with the balance of any VAT due. It can simplify things for established businesses, or those with good financial records, but it can mean a nasty surprise for new and less organised businesses if the final VAT bill turns out to be significantly more than the payments made over the year.

Cash accounting

Normally you pay VAT on the invoices you send to customers in a quarter and reclaim the VAT on invoices you receive for the same period, whether or not they are paid. This means that if your customers take more than 30 days to pay you, you will end up paying VAT to HMRC that you haven't yet received. In these circumstances you can opt to prepare VAT returns on a 'cash accounting' basis. Using this scheme you only include amounts received from customers and payments made in the quarter on your returns. This scheme is used by businesses to help them manage their cash flow.

Flat Rate Scheme

(for businesses turning over up to £230,000) This makes life even simpler by letting you calculate the VAT payable to HMRC each quarter as a fixed percentage of your VAT-inclusive turnover (or sales receipts, if you use cash accounting). The percentage you use is set by HMRC according to the trade sector in which you operate. The simplification means that you don't reclaim

VAT on purchases or expenses (except on capital assets such as equipment or vans costing over £2,000), you simply keep the difference between the standard rate of VAT you charge your customers and the flat rate percentage you are given. If you have few inputs this can be a good scheme, but you need to check the sums to make sure you won't be worse off.

Further details and a list of the flat rate percentages can be found at <http://www.hmrc.gov.uk>

Retail schemes

Most shops don't have time to produce detailed VAT invoices for customers, especially if they make a lot of low value sales, so special schemes are available so they can simply calculate their Output Tax from their takings. There are standard schemes for the most common types of retailers, including many special cases such as chemists, petrol stations, sub-post offices and garden centres. If you're a retailer you will need to use one of these schemes.

There are full details <http://www.hmrc.gov.uk>

Record keeping made easier

There's nothing wrong with well-kept paper VAT records, either hand-written or on an Excel spreadsheet. If you use cash accounting or a retail scheme, you can simply add a VAT column to your cash book and record the VAT element of each day's takings, each banking and payment. You then total the columns every quarter and enter the figures on your VAT return. If you use invoice accounting you will need to keep an extra record, or day book, listing every sales invoice issued and every purchase invoice received each quarter. You should file the invoices and receipts in a way which enables you to trace them easily to or from the cash book or day book. It's a good idea to take a copy of your VAT returns before you submit it to HMRC and keep the copies with your VAT workings. You must keep all your VAT records for at least six years.

Accounting software can dramatically reduce the time needed to keep your VAT records because it can do multiple things at once. For example, when you produce a sales invoice the software will store the details to remind you to chase the customer for payment, keep a running total of your sales for your accounts, and keep a separate track of the VAT due for the quarter. If you use cash accounting or the Flat Rate Scheme the software will calculate the standard VAT due for the quarter on the appropriate basis provided you set it up correctly before you start. At the press of a button you will see how much VAT you owe to date, and at the end of the quarter you can either print out the figures to copy onto your VAT return, or most modern accounting packages will allow you to file the VAT return online direct from the software without needing to re-key any of the figures.

A simple small business accounting package such as Sage Instant Accounts will give you complete control over your VAT as well as your business finances generally, at a very affordable price - for more details see

<http://shop.sage.co.uk/instantaccounts.aspx>

or call 0800 44 77 77 (new customers)

0800 33 66 33 (existing customers)

About Sage

For over 20 years, Sage have been working with all types and sizes of business across the UK, delivering the very latest in thinking on business software and services for every aspect of business. We offer a full range of software and services to make managing your people a whole lot easier, and tackling all the complicated legal issues that come from employing them much more simple.

We have software and services to help you manage your Essentials, Finances, Marketing, People, Future plans... in fact, any area of business.

Call today to find out more on
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