

Value Added Tax (VAT) explained (What is it and should I register?)

What is it?

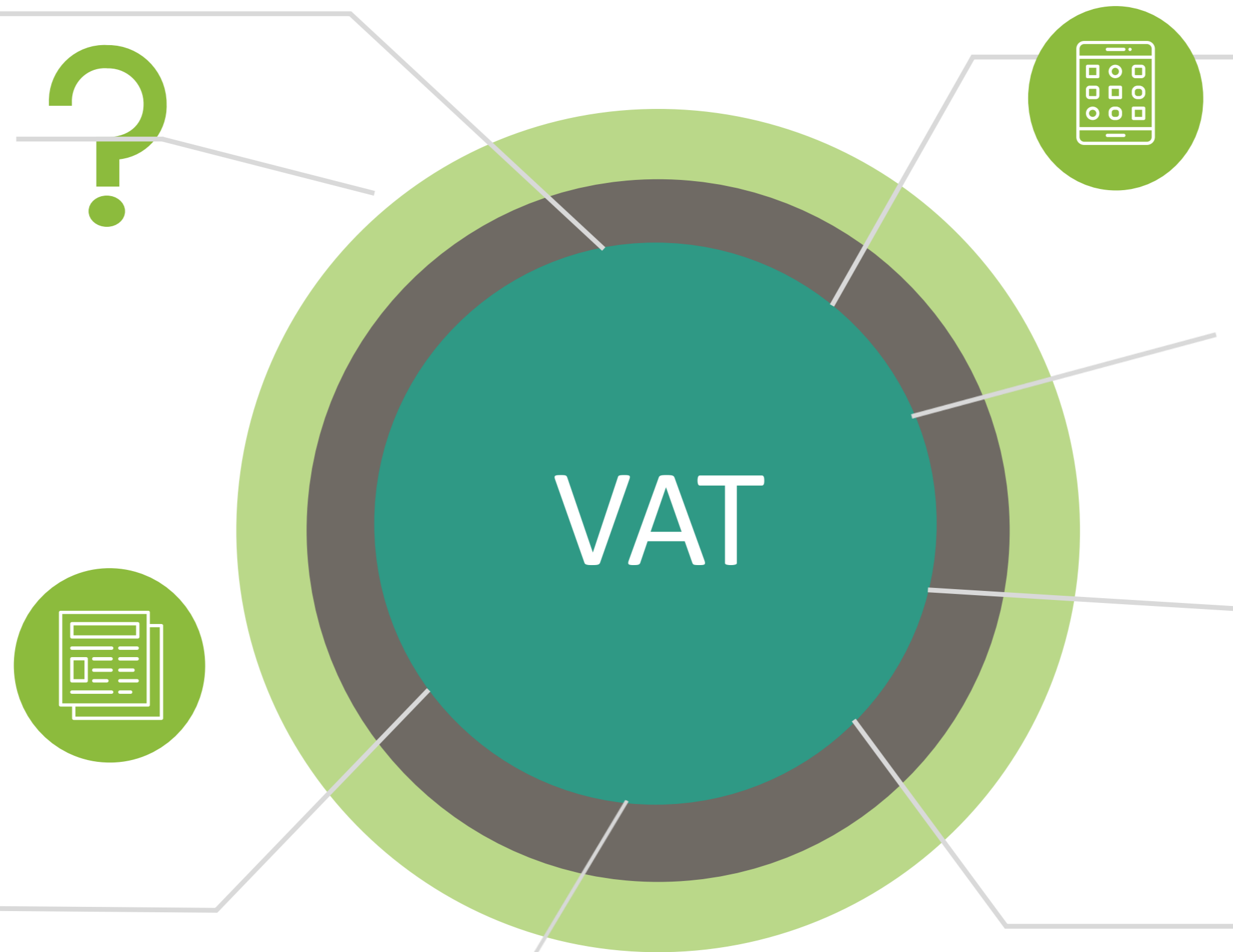
VAT (Value Added Tax) is a tax added to most products and services sold by VAT-registered businesses. It is a tax on the end user, because VAT registered businesses can reclaim any VAT suffered but consumers cannot.

When do businesses have to register?

When a business's turnover reaches over £90,000 it must register and charge VAT. Businesses with less than this can voluntarily register.

Why would you elect to register voluntarily?

- To present your business as larger than it is
- To reclaim VAT paid out on assets at the start of the business
- To reclaim VAT on assets up to 4 years before registration.



Why is VAT so complicated?

On the face of it VAT is simple, but years of tinkering has meant that there are numerous rules around rates of VAT and schemes such as margin schemes, flat rate, tour operators, and reverse charge for CIS to name but a few. Seek advice if you are unsure.

How is the VAT due calculated?

VAT is charged at rates up to 20% on sales and then VAT on purchases is deducted from this to give the Net VAT payable to HRMC.

When is VAT due?

Normally VAT is calculated and reported on a quarterly basis and is due to be paid 1 month and 7 days after the end of the VAT quarter.

How is VAT reported?

A VAT return needs to be filed by the due date and this must be completed electronically, To do this its advised to use a product such as Xero.

What is the VAT rate?

VAT is normally charged at 20% but it can also be charged at 0% & 5% depending on the type of goods and services supplied.