

What is VAT?

Indirect tax on consumer spending, charged on most goods and services supplied within the UK, borne by the final customer, collected by businesses on behalf of HMRC.

VAT Rates

VAT Type	VAT Rate
Standard	20 %
Reduced	5 %
Zero	0 %
Exempt	-

Reduced and Zero Rate Supplies

VAT Rates in the UK

Standard Rate	20%	(20/120 of gross price).
Reduced Rate	5%	Applies to domestic/-charity fuel/power, children's car seats, and certain residential improvements.
Zero Rate	0%	Covers basic food (excl. luxury/catering), water/-sewerage, books/newspapers, children's clothing/footwear, and protective boots/helmets.

Calculating VAT (including Discounts)

VAT is calculated as a percentage of the net price (before VAT).

Own Use/Gifts: VAT based on recipient's price for identical item.

Temporary Use VAT calculated on depreciation value during the usage period.

Supplies to Connected Persons Below Market Value: VAT is based on market value, not the reduced price.

Basic Tax Principle

Tax should be charged at each stage of production and distribution, but borne by the final customer of the product.

VAT Supplies

Supply of Goods (VAT Purposes) Requires ownership transfer + consideration. Includes business asset gifts (excl. samples/£50 gifts) and private use of goods.

Supplies of Services Non-goods supply for consideration. Includes hiring goods, business use of reclaimed input tax goods/services. Excludes gift services and private car use.

Self Supply Taxable person supplies goods/services to themselves (e.g., manufacturer using own product). Input tax not reclaimable.

The Effects of Discounts

VAT is calculated on the actual amount paid after discounts. If a discount is applied at the time of payment, VAT is reduced accordingly, ensuring it is only paid on the discounted price.

Legal Requirements

VAT Record-Keeping

All VAT records must be retained for 6 years (electronic or physical). Required records include:

- Business/accounting records.
- VAT account.
- Copies of tax invoices issued/received .
- Import/export documents.

What tax is paid to the government?

Net input and output tax is paid to the government (HMRC).

Gross Amount = Net Amount + VAT

• **'Gross' amount is the value of the invoice including VAT.**

• **'Net' amount is the value of the invoice before adding VAT.*

Exempt Supplies (not in VAT)

VAT-free goods/-services include: Building sales/leases (excl. new), insurance, financial services, Royal Mail, betting, health, burial, non-profit sports, charity fundraising, education, cultural services, unrecoverable input VAT supplies, investment gold, and cost-sharing services.

VAT on Bad Debt

VAT on Bad Debts

- Cash Accounting: VAT recorded on payment.
- Accrual Accounting: VAT recorded before payment; risk if unpaid.

Claim VAT if: • VAT paid to HMRC.

• Debt written off.

• 6 months overdue.

• Claim within 4 years, 6 months.

If unpaid to the supplier within 6 months, repay input VAT to HMRC.

