



VAT - The Essentials

4 Minute Read



small business
accounting



VAT - The Essentials

You may not need to be VAT registered but if you are, you'll have to submit a VAT return to the tax authorities every quarter.



1 / What is VAT?

2 / Do I have to register for VAT?

3 / Can I choose to register for VAT?

4 / Can I reclaim the VAT I pay before I register?

5 / What type of things can't I reclaim VAT on?

6 / What are the different rates of VAT?

7 / What's the difference between zero (0%) VAT and exempt from VAT?

8 / How do I register for VAT and file my returns?

9 / How and when do I pay my VAT?

10 / What if I make a mistake on my VAT return?



1 /

What is VAT?

Value Added Tax (VAT) is charged when a VAT-registered business sells taxable products or services (known as 'taxable supplies') to another business or an individual customer:

If you're VAT-registered you may be able to reclaim the VAT you pay when you buy goods and services from other VAT-registered businesses. If you're not VAT-registered, you don't have to charge VAT to your customers, but you can't reclaim VAT you've paid either.



2 /

Do I have to register for VAT?

If you're a business and the goods or services you provide count as 'taxable supplies', you must register for VAT if:

- Your taxable supplies for the previous 12 months have gone over the 'VAT threshold' (currently £82,000 for the tax year 2015/16); or
- You think your taxable turnover will go over this limit in the next 30 days alone.

'Taxable supplies' include:

- Supplies you make in the UK that would be subject to the standard, reduced or zero rate of VAT.
- Supplies of some types of services that you receive from businesses based outside the UK.



You may also need to register for VAT if you bring goods into the UK from other EU countries with a total value of £82,000 or more, or if you expect to do so in the next 30 days alone.

Where you sell goods from the UK to other countries, check each country's rules to see whether you need to register for VAT locally.

If you need to register for VAT you must tell HMRC within 30 days of:

- Breaching the threshold; or
- Realising that you will breach the threshold in the next 30 days alone.



3 /

Can I choose to register for VAT?

This may be a good idea if:

- You buy lots of goods and services from VAT-registered businesses and want to claim some of the VAT back to improve your cash flow; and/or
- Your customers include large businesses that only deal with VAT-registered suppliers.

If you make taxable supplies (or intend to), you can choose to register at any time. Once registered, you have to charge VAT on all taxable supplies to all your customers.

4 /

Can I reclaim the VAT I pay before I register?

You can recover VAT on your pre-VAT-registration expenses if they relate to your business within certain time limits:

- For goods (provided that you still have the items), you can claim for up to four years prior to registration.
- For services, you can claim for up to six months prior to registration.



The story of
your success
is written in
the numbers





5 /

What type of things can't I reclaim VAT on?

You cannot generally reclaim VAT on:

- Items for personal use.
- Business entertainment.
- Business gifts costing more than £50.



6 /

What are the different rates of VAT?

Different rates of VAT are charged on different things:

- Standard (20%): the default rate that applies to most products.
- Reduced (5%): covers items such as fuel, power and energy-saving materials.
- Zero (0%): covers items such as food (but not meals in restaurants and hot takeaways, which are charged at 20%), books and newspapers, children's clothes and public transport.
- Exempt from VAT: applies to goods and services such as insurance, education, training and services by doctors and dentists.
- Out of scope from VAT: covers items such as government grants and wages.



7 /

What's the difference between zero (0%) VAT and exempt from VAT

If your business only provides products or services that are exempt from VAT (for example, it provides loans), you cannot reclaim VAT on your purchases. If your business sells items zero-rated for VAT (such as books), you can reclaim VAT on your purchases.

8 /

How do I register for VAT and file my returns?

Registering for VAT online is secure, quick and easy. It automatically sets you up to make your quarterly VAT returns online.



9 /

How and when do I pay my VAT?

The deadline for payment each quarter is shown on your online return and is normally one month and seven days after the end of your VAT period. You must pay any VAT due electronically.



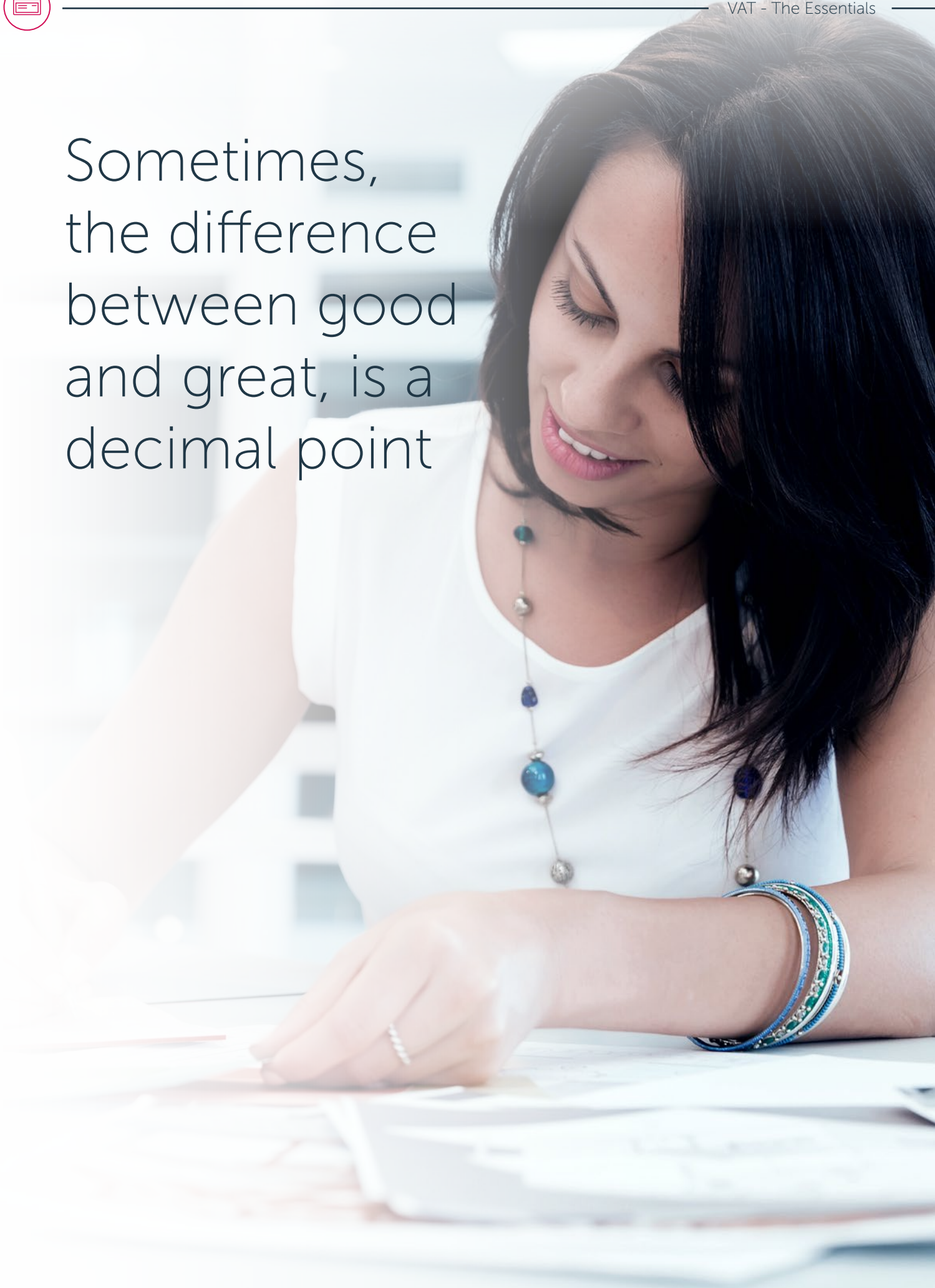
10 /


What if I make a mistake on my VAT return?

If you make a mistake, you can correct it on your next VAT return provided that the error is not more than £10,000. You can also correct it on your next VAT return if the error is less than £50,000, but only if it is also less than 1% of your turnover for the current VAT quarter. Anything above this and you must write to HMRC immediately.



Sometimes,
the difference
between good
and great, is a
decimal point



A man with short, light brown hair, wearing a dark blue suit, white shirt, and maroon tie, is looking down at an open book he is holding. He is in a library, with bookshelves filled with books visible in the background. The lighting is soft and focused on the man.

0800 028 1028
kpmgsmallbusiness.co.uk

© 2015 KPMG LLP, a UK limited liability partnership, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.



small business
accounting