

VAT – AN INTRODUCTION

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What is VAT?

VAT is a tax chargeable on taxable supplies made in the UK by taxable persons. Credit is given for VAT paid to other businesses and the net balance is payable or reclaimable - normally on a quarterly basis.

Taxable persons

A taxable person is any person carrying on a business which is, or is required to be registered for VAT and includes the following:

- **An individual**
- **A partnership**
- **An unincorporated association, eg trust or charity**
- **A limited company**
- **A limited liability partnership**

Supplies

VAT law covers all types of supply of goods or services (outputs), whether of a revenue or capital nature. Supplies include sale, hire or loan of goods. Outputs normally fall into three categories:

Positive rated

Standard rate (20%), reduced rate (5%) or zero rate (0%).

- Standard rate is the default position for most supplies.
- Reduced rate applies to domestic fuel and power and certain building works;
- Zero rate includes supplies of food stuffs, children's clothes, exports of goods.

Exempt supplies

Including necessities such as insurance, postage, finance, education, and health

Outside the scope of VAT

eg dividends, shares of profit compensation for losses, non UK supplies.

Should I be registered for VAT?

You should notify HM Revenue & Customs when:

- Taxable turnover for the past twelve months exceeds the VAT registration threshold, currently £85,000.
- There are reasonable grounds for believing that your turnover in the next 30 days alone will exceed £85,000.

In the first case, notification must be made to HMRC within thirty days of the end of the relevant month; In the latter case, notification must be within thirty days of the date on which grounds first existed.

It is important to monitor taxable turnover because there is a penalty for late registration. This is in addition to the net tax payable.

Can I register for VAT if my taxable turnover does not exceed the prescribed limits?

It is possible to register voluntarily provided you are making taxable supplies or intend to make taxable supplies in the future and can substantiate this.

Special schemes

There are special schemes available to smaller businesses which are designed to ease the burden of accounting for VAT. These include the Cash Accounting Scheme, the Flat Rate Scheme and the Annual Accounting Scheme. Turnover limits apply in each case and advice can be provided on suitability.

Retail schemes

Special schemes for accounting for VAT are available to retailers. We can advise on the best choice.

Contact

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