

### 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

<b>Standard Rate</b>	20%	(20/120 of gross price).
<b>Reduced Rate</b>	5%	Applies to domestic/-charity fuel/power, children's car seats, and certain residential improvements.
<b>Zero Rate</b>	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.

