



**MD ACCOUNTANCY**

**TEAM LIMITED**



**BACK  
TO BASICS**  
**VAT**



# What is VAT?

VAT stands for Value Added Tax, it's a tax placed on almost all goods and services. VAT registered businesses collect it on behalf of the government, and pay it over to HMRC.

## Do I need to be VAT registered?

You must be registered for VAT in the UK if all the below applies

- You are a business making selling goods or services that aren't exempt from VAT (see below for what's exempt)
- Your sales of goods and/or services over the last 12 month exceeds £85,000.

But you can register voluntarily as long as you are selling goods or services that aren't exempt.

If you are VAT registered, you must charge VAT on your sales, and can claim back the VAT on your purchases





## So what's exempt?

The list is long and includes essential food and drink, sports activity, healthcare, printing, postage, books and publications, children's clothing, protective and safety equipment, betting or gaming, insurance and financial services.

## Do I charge VAT on my Sales?

If (and only if) you are VAT registered, you need to charge VAT on all your sales.

Your sales invoices need to show the rate of VAT you are charging, which will be:

- 20% for the majority of businesses
- 5% for all domestic sales of products and services that are reduced rated
- 0% for domestic sales of zero-rated products or services, or for all sales of services outside of the UK.

If you are a subcontractor in the construction industry, you should show 0% VAT and indicate that the domestic reverse charge applies to this invoice and the customer is responsible for declaring the VAT.

## Can I claim VAT on my purchases?

If you are VAT registered, you can claim VAT on your business expenses. You will need a valid VAT invoice for this – An example of what is and isn't a valid VAT invoice is at the end of this guide

There are some exceptions, even if you have a valid VAT invoice, you can't reclaim VAT on, for example:

- Anything that is for personal use
- Entertaining or providing hospitality to people you do business with (but staff entertaining is OK)
- VAT on the purchase of a car if there is any personal use, unless it is used as a taxi, for driving instruction or for self-drive hire.



# Record Keeping

Rules are now in place which means some records must be kept digitally (using accounting software). You may have heard of this as Making VAT Digital, Making Tax Digital, MVD or MTD.

You must keep a record of:

- everything you buy and sell (including zero-rated, reduced and VAT exempt items)
- copies of all sales invoices you issue
- all invoices you receive (originals or electronic copies).

You must keep the following records digitally:

- the VAT on goods and services you sell
- the VAT on goods and services you purchase
- the 'time of supply' and 'value of supply' (value excluding VAT) for everything you buy and sell
- any adjustments you make to a return
- reverse charge transactions - where you record the VAT on both the sale price and the purchase price of goods and services you buy
- any VAT accounting schemes you use
- your total daily gross takings if you use a retail scheme.





# What is a valid VAT invoice?

**TAX INVOICE**

Boom FM  
Attention: Human Resources Manager  
P O Box 3955  
South Mailing Centre  
Oaktown  
OK12 3TN




**Demo Co.**

Orange Demo Co  
23 Main Street  
Central City  
Marineville  
MV12 3CC

Invoice Date: 21 Jun 2022  
Invoice Number: INV-0045  
VAT Number: GB 123456789

Description	Quantity	Unit Price	VAT	Amount GBP
Desktop/network support via email & phone. Per month fixed fee for minimum 20 hours/month.	3.00	451.04	20%	1,353.13
			Subtotal	1,353.13
			TOTAL VAT 20%	270.62
			<b>TOTAL GBP</b>	<b>1,623.75</b>

**Due Date: 5 Jul 2022**  
When paying by cheque, please complete this payment advice, detach and post to the address provided.  
Online payment preferred - use our account 99-04-04 987654321 or use the 'Pay online now' link to pay via PayPal with your credit card.

    
[View and pay online now](#)

Company Registration No: 02181833. Registered Office: 23 Main Street, Central City, Marineville, MV12 3CC.

**SAMPLE**

- 1 The seller's name / business name and address
  - 2 Your business name and address
  - 3 A unique invoice number
  - 4 The invoice issue date
  - 5 The supply date or date the goods / services were provided
  - 6 A description of the products / services being sold
  - 7 The amounts being charged
  - 8 The total amount due
- If the seller is VAT registered the invoice must also include:
- 9 The seller's VAT registration number (VRN)
  - 10 The price of each product / service excluding VAT
  - 11 The VAT rate of each product / service
  - 12 The subtotal excluding VAT
  - 13 The total amount of VAT being charged



# Top Tips

- If you are subscribing to services online, make sure you provide the supplier with your business name and address, and your VAT number if applicable. Without this the supplier can't send you a valid invoice/receipt
- VAT invoice must be addressed to your business, so make sure this is clear when ordering goods or services, especially if the delivery address is different
- Use an app to take a picture of your small receipts before you lose them
- Make sure you download invoices for those suppliers who don't send them out
- Consider the VAT Flat rate scheme if your turnover is below £150,000
- Make sure your bookkeeping is up to scratch
- If you are not sure, ask for help.

# Questions and more information

If you have any questions, or would like further information about anything contained within this Back to Basics factsheet, please speak to a member of our team who will be happy to assist you.