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xero

Your quick guide to VAT in the UK





Your quick guide to VAT in the UK

Find out when to charge VAT, how to do it, and what to do with the money. And learn when and how to claim back VAT on business expenses.

Xero does not provide accounting, tax, business or legal advice. This guide has been provided for information purposes only. You should consult your own professional advisors for advice directly relating to your business or before taking action in relation to any of the provided content.

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**What is VAT and
how much is it?**

What is VAT and how much is it?

You've probably heard plenty about VAT – it stands for value-added tax and it adds to the cost of nearly everything you buy in the UK. If you're a business, you may be required to register for and collect VAT. So it's a good idea to get a handle on what VAT is and how it works.

How can VAT affect my business?

- You may need to add VAT to your prices
- You will need to send that extra money to HMRC
- You can claim back any VAT that you're charged on business supplies

How much is VAT

- 20% is the VAT rate for most goods and services
- 5% is applied to some health, energy, heating, and protective products and services
- 0% is applied to a range of products and services to do with health, building, publishing and kids' clothing

[Find out about the different VAT rates on the gov.uk site.](#)

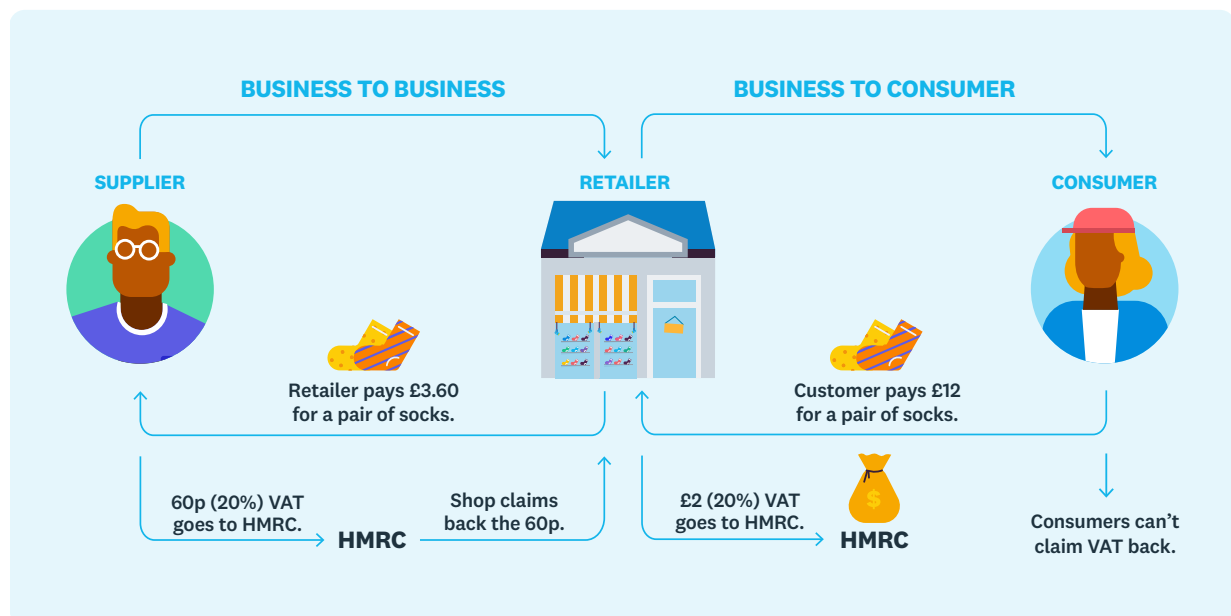
VAT exemptions and out-of-scope sales

VAT does not apply to all products and services. Some things, such as insurance, antiques, arts, and educational training are exempt. Other things, like statutory fees, are out of scope (they sit outside the tax system). Being exempt or out of scope is different from charging 0% VAT.

[Learn more about VAT-exempt items.](#)

How does VAT work?

The VAT on any item is designed to be paid by the consumer in the end, rather than by the businesses involved in its supply. Take this example:



VAT on imports

You're generally required to pay VAT on goods that you import into the UK. That VAT will probably be added to the price when you pay customs. You can generally claim it back when submitting your VAT return.

[Learn more on import VAT from gov.uk](#)

VAT on exports

If you sell goods and services to customers within the EU, you'll probably need to add export VAT. The rate will depend on what you're selling and who you're selling to.

[Learn more on export VAT from gov.uk](#)

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How to register for VAT

How to register for VAT

Find out if your business needs to worry about VAT. And, if so, learn how to register for VAT.

Who needs to register for VAT?

Some businesses have to register for VAT, some aren't allowed to, and others can choose.

- **Who must register for VAT:** Businesses with an annual taxable turnover of more than £85,000. You may be fined if you don't register (check out [the penalties on this gov.uk page](#)).
- **Who is not allowed to register for VAT:** Businesses that sell only VAT-exempt goods and services.
- **Who can choose to register for VAT:** Businesses with an annual taxable turnover of less than £85,000.

Benefits of registering for VAT

Once you're VAT registered, you don't end up paying VAT on business expenses. You'll still get charged the VAT-inclusive price when you make the purchase, but you can claim that money back when you file your return with HMRC.

What do I need to register?

To register, you need:

- a National Insurance (NI) number or your tax identifier
- details of other businesses you've owned within the past two years
- your business bank account details

If you bought the business, you'll need to supply records of the sale.

How to register for VAT

It's easy to register for VAT on your own and it costs nothing. Your best bet is to do it online through the HMRC website. [Start the registration process here](#).

Want to know how to register for VAT by post? You can [download a form from this gov.uk page](#).

How to register for VAT

Choosing a VAT accounting scheme

Now you know the basics of how to register for VAT. But during the process you'll be asked to identify what VAT accounting scheme you'll use. The accounting scheme is how HMRC calculates whether you owe VAT, or get a refund.

Most businesses must use standard VAT accounting

You record the VAT collected on each sale and the VAT paid on each purchase, then submit a VAT return to HMRC every quarter.

You may be able to use annual VAT accounting

Some businesses can submit a VAT return once a year, however they are still expected to pay quarterly. Those quarterly payments are based on your last return, or an estimate.

You may be able to join a flat-rate scheme

Certain smaller businesses can skip all the VAT accounting and simply pay a percentage of their turnover as VAT. An accountant or bookkeeper can help you decide if this makes sense for your business. [You can see the flat rates for specific industries on this gov.uk page.](#)

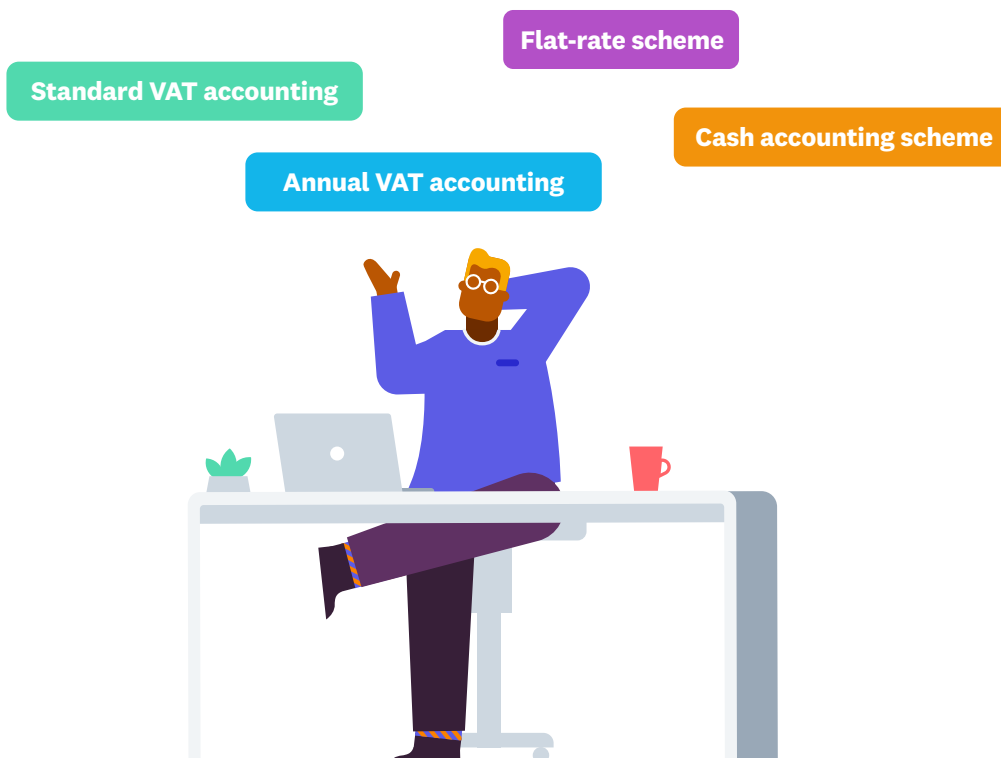
You may be able to use a cash accounting scheme

Under cash basis accounting, you're assumed to have collected or paid VAT when money changes hands. Under all the other schemes, you're assumed to have collected or paid VAT as soon as an invoice is raised.

Once you're registered for VAT

Once you're registered for VAT you need to:

- add VAT to your prices
- issue VAT invoices to your customer
- file VAT returns and pay any VAT due to HMRC
- keep digital VAT records and a VAT account



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Calculating VAT and issuing VAT invoices

Calculating VAT and issuing VAT invoices

If you're a VAT-registered business you must add VAT to your prices. You also need to issue VAT invoices to customers. Let's take a look at the maths and requirements of both.

How to add VAT to prices

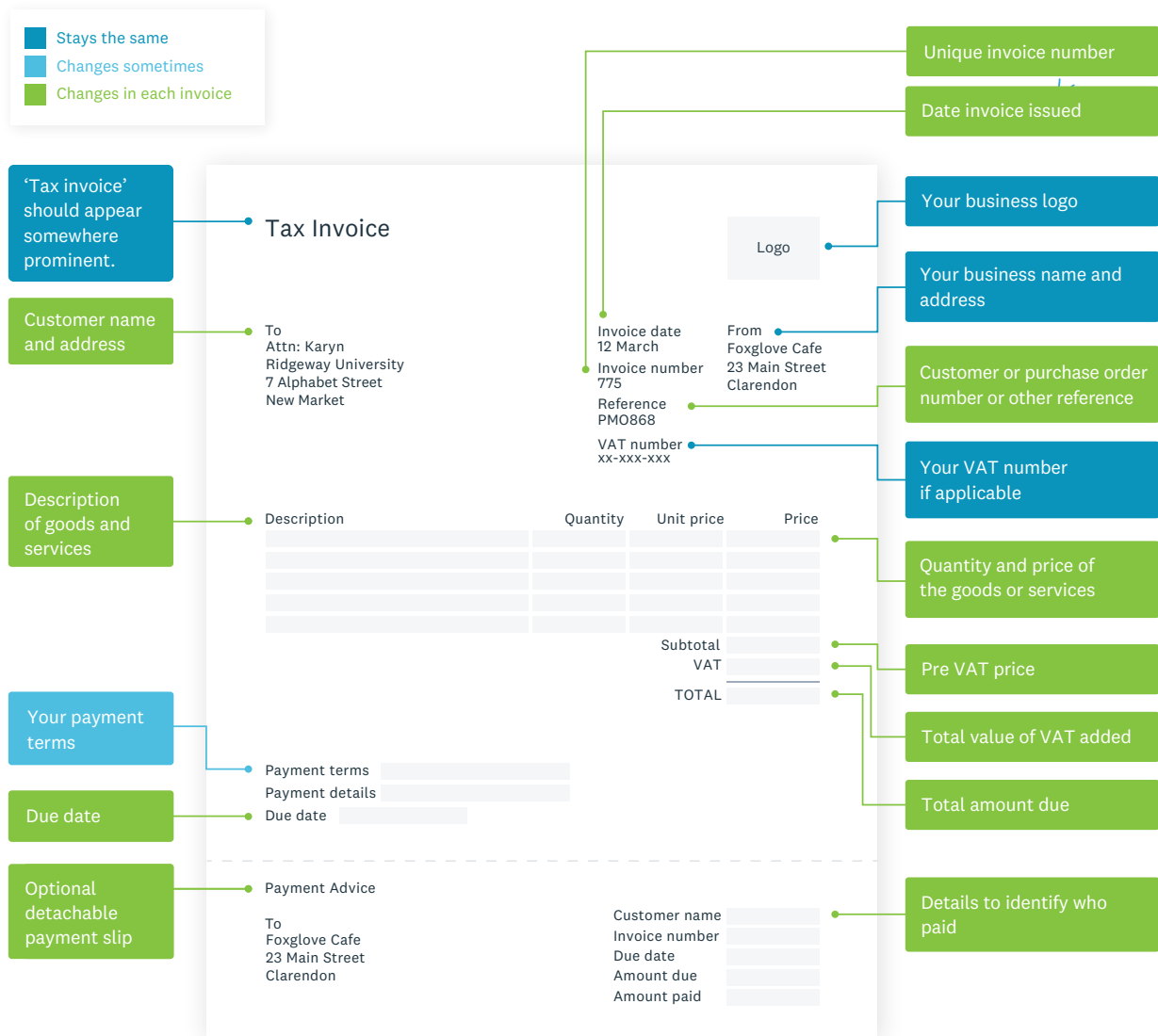
There's a very simple formula for each VAT rate.



You don't add any VAT to out-of-scope or VAT-exempt products or services that you might sell.

A VAT invoice tells a customer how much VAT they paid on a purchase. It's important information because some of your customers may be able to claim that tax back. If you're VAT registered, you must issue VAT invoices.

Here's what you need to put on a VAT invoice.



If you're issuing an invoice more than two weeks after goods or services were delivered, add an extra line to your invoice saying 'VAT tax point' with the date of delivery next to it. This can help your business customers claim the VAT back sooner.

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Claiming VAT

Claiming VAT

VAT-registered businesses can claim back the VAT they pay on business expenses. They can also sometimes claim back VAT paid on income. Let's learn how.

When you can claim VAT back

You can claim VAT back when:

- you've purchased goods or services for your business
- a customer leaves you with a bad debt

VAT on business expenses

When you buy something for your business, you're usually charged VAT. If you're registered for VAT, you can claim that back. You do this by reporting how much VAT you paid during a period of time. HMRC balances the amount you've paid against the VAT you've collected to work out your refund or bill (learn more in [working out your VAT](#)).

Business expenses include things like stock, work tools, computers, phones, and stationery. You can't claim VAT on client entertainment.

When expenses are split between business and home

If you buy something like a laptop that you use at home and in the business, you can claim part of the VAT back. You will need to work out what portion of the purchase is business-related and show how you arrived at that number.

When you're not collecting any VAT

You can claim back VAT on supplies even if the end product or service that you sell is 0% VAT rated. But you can't claim VAT back if the end product or service is VAT exempt.

VAT relief on bad debts

If you raise an invoice and pay VAT on the expected income but your customer doesn't pay you, then you have a bad debt. You can claim back the VAT from HMRC on your next return. If the customer pays later, you can repay the VAT then.

[Learn more about VAT and bad debts.](#)

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**Working out VAT -
refund or bill?**

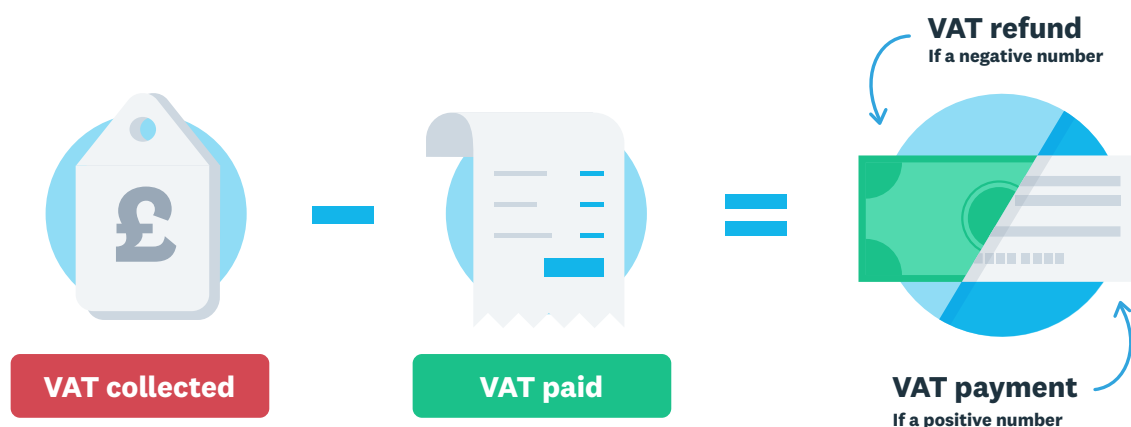
Working out VAT - refund or bill?

Working out VAT is straightforward maths. Keeping track of all your transactions is the trickiest part. Let's take a look at the process.

VAT is a simple formula

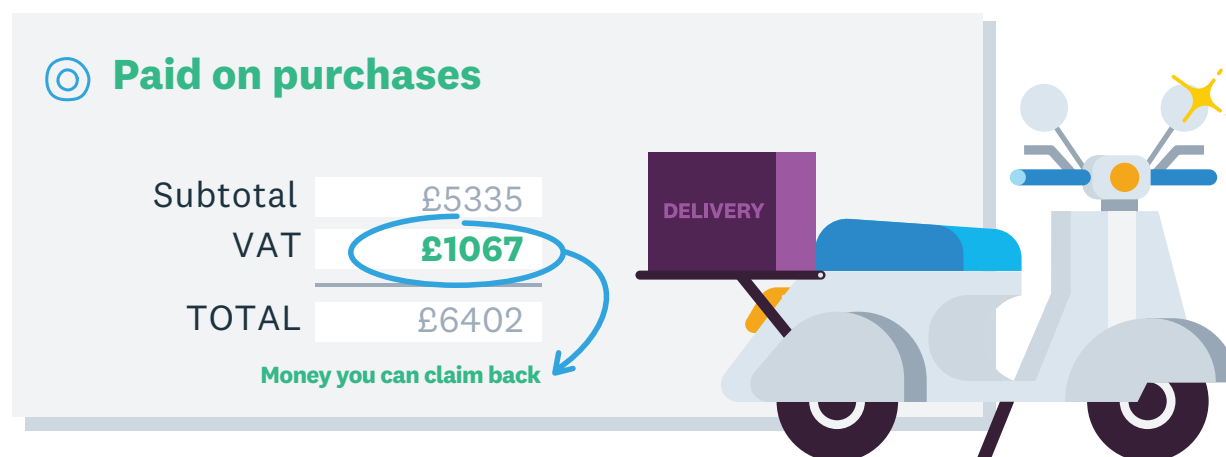
Unless you're in a flat rate scheme, you'll work out VAT by comparing the amount you paid on purchases to the amount you collected on sales.

If you get a positive number, you need to pay that amount to HMRC. If it's a negative number, you'll get refunded that amount.



How to work out VAT in four steps

1. Make a note of the VAT paid on your business purchases



Collected on sales

Subtotal	£304.35
VAT	£60.87
TOTAL	£365.22

Money you owe HMRC

[illegible]

£2819.74 - £1342.87 = £1476.87 Money you owe HMRC.

Working out VAT - refund or bill?

Avoid nasty surprises with smart bookkeeping

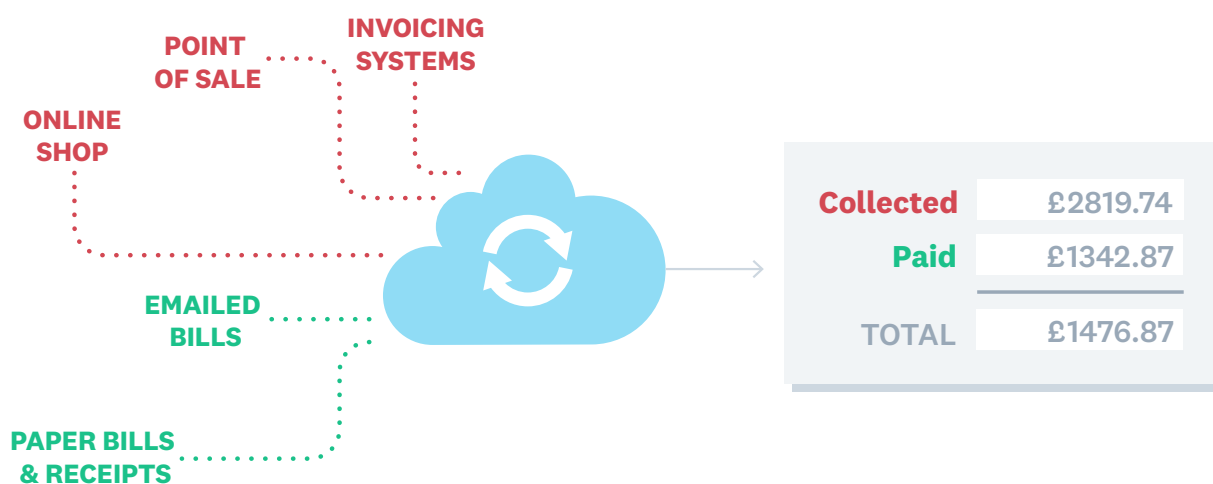
Like any business, you'll aim to sell more than you buy. If you succeed in doing that, you'll most likely end up with a VAT bill. Run the four-step VAT equation regularly so you can:

- work out how big your VAT payment is shaping up to be
- transfer cash to a separate bank account to cover the bill

Automate your VAT calculations

You can use [online accounting software like Xero](#) to stay on top of VAT. It automatically records VAT collected and paid, and does the maths for you.

The software keeps a running count of your VAT situation so you always know where you stand. When the VAT period is over, you just connect to HMRC and submit your return online. All the information is ready to go.



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Submitting your VAT return

Submitting your VAT return

Once you've registered for VAT, you'll need to submit returns online regularly – and square up with HMRC. Here's how to file and either pay your bill, or get your refund.

Information you will need

To file a simple VAT return, you'll need a record of total sales and VAT collected, plus a record of total purchases and VAT paid. You won't need to submit tax invoices when you file your return, but you will need to have them on hand. HMRC may ask to see them later.

Methods for submitting VAT

1. Accounting software

Businesses above the VAT threshold must submit VAT using Making Tax Digital-compliant software. [Learn more about making tax digital.](#)

2. Through your VAT online account

Businesses that have voluntarily registered for VAT can submit their return through their VAT online account. [Find out more on this gov.uk page.](#)

VAT due dates

Your due dates will depend on when you registered for VAT and what accounting scheme you use.

Most businesses are required to submit every three months. You can get the specific dates from HMRC, by looking it up in your VAT online account.

Paying VAT to HMRC

If you have a VAT bill, you generally get one month and seven days to pay. You can do this via internet banking, debit card, or credit card. But perhaps the easiest way is to set up a direct debit. This allows HMRC to withdraw the VAT you owe directly from your bank account on the due date.

If you miss your deadline, you may face penalties. [Find out more about surcharges and penalties on this gov.uk page.](#)

Getting a VAT refund

If you paid more VAT than you collected, HMRC will owe you a refund. They aim to pay within 10 days of you submitting your return. Make sure they have your bank details.



**Where to next?
Tools and guides
for your business**

Now you know the ins and outs of VAT, but it can be a stretch to keep on top of it all. Xero's got resources and solutions to help.

Free resources for small businesses

Guides

Handy tips and tricks to help you do business better.

[Read guides](#)

Tax invoice template

Use our free template and it will calculate VAT for you.

[Get your template](#)

Bookkeeping tips

Learn how to keep tabs on taxes and profitability.

[Read the guide](#)

Tech solutions for small businesses

Xero VAT tools

Streamline VAT accounting and returns.

[Check it out](#)

Xero accounting software

You'll be surprised by how much of your financial admin can be automated.

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