

VAT Explanation

The regulations on Value Added Tax (VAT) were originally introduced in the UK on 1st April 1973 and have been amended from time to time. VAT is a tax on consumer expenditure and is collected on business transactions. The principal regulations made by HM Revenue & Customs are the VAT Regulations (SI 1995/2518)

General

VAT is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK. VAT is charged when a VAT-registered business sells to either another business or to a non-business customer. When VAT-registered businesses buy goods or services they can generally reclaim the VAT they've paid. With effect from 1st January 2012 any business that has a turnover of £35,000 must be registered for VAT.

There are three rates of VAT, depending on the goods or services the business provides. The rates are:

- Standard - 20 per cent
- reduced - 5 per cent
- zero - 0 per cent

Standard Rate 20%

An organisation who is registered for VAT and makes VAT taxable supplies have to charge VAT on them. Normally VAT is charged at the standard rate, unless the goods or services that are being sold, and the circumstances in which they are sold, mean that a different rate can be charged.

Zero rate of VAT

There are some goods and services that are zero-rated. This means that they're taxable for VAT, but the VAT rate is zero per cent.

Goods and Services that are Zero Rated include;

Food (Group 1)
Water & Sewerage (Group 2)
Books (Group 3 & 4)
Transport (Group 8)
Clothing & Footwear (Group 16)

Exempt goods and services

There are some goods and services that are exempt from VAT and services are not taxable for VAT.

Goods and services that are exempt from VAT include:

- Insurance (Group 2)
- Betting, Gaming and Lotteries (Group 4)
- Finance (Group 5)
- Education (Group 6)
- Health & Welfare (Group 7)
- Burials & Cremations (Group 8)
- Sport & Physical Education (Group 10)
- Cultural Services Theatres & Museums (Group 13)

Outside the Scope

Some goods and services are not covered by the UK VAT System at all and are therefore classified as outside the scope of VAT. So no charges of VAT are made and one is unable to claim any VAT back.

Goods and services that are outside the scope of VAT include;

- Statutory Fees and Services