

Introduction to VAT

Value Added Tax (VAT) is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK. It's also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

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

- standard - 17.5 per cent
- reduced - 5 per cent
- zero - 0 per cent

There are also some goods and services that are:

- exempt from VAT
- outside the UK VAT system altogether

This guide explains the basics of how VAT works. It tells you where you can find more information and advice.

On this page:

What is VAT?

VAT is a tax that's charged on most business transactions in the UK. Businesses add VAT to the price they charge when they provide goods and services to:

- business customers - for example a clothing manufacturer adds VAT to the prices they charge a clothes shop
- non-business customers - members of the public or 'consumers' - for example a hairdressing salon includes VAT in the prices they charge members of the public

If you're a VAT-registered business, in most cases you:

- charge VAT on the goods and services you provide
- reclaim the VAT you pay when you buy goods and services for your business

If you're not a VAT-registered business or organisation then you can't reclaim the VAT you pay when you purchase goods and services.

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Who charges VAT and what VAT is charged on

VAT-registered businesses add VAT to the sale price of most goods and services they provide.

When you must register for VAT

If you're a business and the goods or services you provide count as what's known as 'taxable supplies' (see 'What is VAT charged on' below) you'll have to register for VAT if either:

- your turnover for the previous 12 months has gone over a specific limit - called the 'VAT threshold' (currently £70,000)
- you think your turnover will soon go over this limit

You can choose to register for VAT if you want, even if you don't have to.

What is VAT charged on?

If you're VAT-registered you'll have to charge VAT on any goods and services that you provide in the UK that are VAT taxable. You charge VAT on the full sale price, even if you accept goods in part exchange or through barter instead of money.

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How VAT is charged and accounted for

If you're VAT-registered the VAT you add to the sale price of your goods or services is called your 'Output Tax'. The VAT you pay when you buy goods and services for your business is called your 'Input Tax'.

Filling in your VAT Return

If you're VAT-registered you'll have to fill in a VAT Return at regular intervals - usually quarterly - and send it to HM Revenue & Customs (HMRC). The return shows:

- the VAT you've charged on your sales to your customers in the period - known as Output Tax
- the VAT you've paid on your purchases - known as Input Tax

If the amount of Output Tax is more than the Input Tax, then you send the difference to HMRC with your return.

If the Input Tax is more than your Output Tax, you claim a VAT repayment on your return.

There are special schemes that some businesses can use to help them work out and pay their VAT.

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When to register for UK VAT

If you're unsure about whether to register for VAT, this guide will help to answer many of your questions. It explains when you must register and also when you can register voluntarily, and why you might benefit from voluntary registration.

It also explains:

- the circumstances in which you don't need to register
- the circumstances in which you can't register
- when to register if you do business internationally

On this page:

Who can and can't register for VAT

Who can register for VAT

You can register for VAT if you're in **business** and you are one of these:

- an individual
- a partnership
- a company
- a club
- an association
- a charity
- any other organisation or group of people acting together under a particular name, such as an educational or health institution, exhibition, conference, etc

For VAT purposes, the individual or organisation that is in business is known as a 'taxable person'.

Who can't register for VAT

You can't register for VAT if any of these is true:

- you sell only goods or services that are exempt from VAT
- you aren't in business according to the definition that HM Revenue & Customs (HMRC) uses for VAT purposes

What is business for VAT purposes?

You can only register for VAT if you're in business. HM Revenue & Customs (HMRC) defines a business as a continuing activity involving getting paid for providing goods or services - in money or another form of payment such as in-kind or barter.

You are in business when, for example:

- you earn an income by carrying on a trade, vocation or profession - by being self-employed or through another entity such as a limited company
- you provide membership benefits as a club, association or similar body in return for a subscription or other form of payment
- you provide certain other activities as a club or other recreational body, charity or other non-profit making body
- you charge admission to a premises

To be in business, these activities must have a degree of frequency and scale and be continued over a period of time.

Even if your activities have some or all the characteristics of a business, they may not be considered a business for VAT purposes if they are essentially a recreation or hobby, or an isolated transaction. So if you only make occasional VAT taxable supplies, or your supplies are minimal, it may be that you don't need to register for VAT. The one-off or infrequent sale of your personal belongings at a car boot sale or auction, for example, would fall into this category - but buying goods for resale on a regular basis is definitely a business activity.

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You're doing business in the UK, or intend to start

You may need to register for VAT, or you may be able to choose to register voluntarily, if you are doing any of the following kinds of business in the UK:

- **Supplying goods or services within the UK.** If your turnover of VAT taxable goods and services supplied within the UK for the previous 12 months is more than the current registration threshold of £70,000, or you expect it to go over that figure in the next 30 days alone, you must register for VAT. See the section in this guide on calculating your VAT taxable turnover.
- **Taking over a VAT-registered business from someone else.** You have to add your own VAT taxable turnover over the last 12 months (if any) to that of the business you're taking over. If the total goes over the registration threshold on the day of the takeover (currently £70,000), you'll have to register - but you can ask HMRC if they can make an exception and allow you not to register for VAT on this occasion. You will have to show HMRC that you expect the combined turnover in future to be below the de-registration threshold (currently £68,000) - for example, because you won't be opening for the same number of hours.
- **Receiving goods from other countries in the European Union (EU).** If you have received goods from other EU countries in the UK (these are known as acquisitions) with a total value greater than £70,000 in the current year since 1 January, or you expect to acquire more than that value in the next 30 days alone, you must register for VAT.
- **Supplying goods or services from the UK to other countries.** See the section in this guide on supplying goods or services from the UK to other countries.
- **Supplying goods or services to the UK from other countries.** See the section in this guide on supplying goods or services to the UK from other countries.

If you don't have a place of business in the UK or live here

If you have to register for one of the reasons described above, but you don't live in the UK or have a place of business here, then you must register as a Non-Established Taxable Person (NETP). You may also want to appoint a tax agent to keep VAT records and accounts on your behalf - that's up to you.

If your trading is below the threshold for registration

If you're carrying out one or more of the business activities described above but you haven't crossed the registration threshold, you can still apply to register for VAT voluntarily - it might be of benefit to you. See the section in this guide on voluntary registration. In any case, you should regularly check your turnover to see if you need to register.

If you've gone over the threshold for registration temporarily

If you've only gone over the threshold temporarily, and you can demonstrate to HMRC that in the longer term you will only be trading below the de-registration threshold of £68,000, you can apply for exception from registration. You can ask HMRC if they can make an exception, and allow you not to register for VAT, by filling in a VAT registration form, stating why you are applying for an exception.

- If HMRC agree to make an exception and allow you not to register this time, you must let them know of any relevant change in circumstances - for example, if your turnover goes over the threshold again.
- If HMRC don't agree to make an exception, you will become registered for VAT from the day you should have been registered. You will need to account for VAT from that date.

If you haven't started to trade yet

If you intend to start carrying out one of the business activities described above, you can choose to register for VAT voluntarily. See the section in this guide on voluntary registration.

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You supply goods or services to the UK from abroad, or intend to start

You may need to register for VAT, or you may be able to choose to register voluntarily, if you are doing any of the following kinds of business in the UK:

- **Supplying and delivering goods from another EU country to non VAT-registered customers in the UK.** If you sell and deliver goods (or arrange for their delivery) from another EU country to customers in the UK who aren't registered for VAT and don't have to be registered, this is known as distance selling. Common examples are mail order and Internet sales. If the value of your distance sales in the calendar year from 1 January goes over the distance selling threshold, currently **£70,000**, you must register for UK VAT. You can also register voluntarily, if you are trading below the threshold or you intend to start trading. For more detailed information, see the link below.
- **Supplying goods on which an 8th or 13th Directive claim has been made or is going to be made.** In certain circumstances you have to register if you sell, supply or otherwise dispose of an asset on which someone has claimed - or intends to claim - an 8th or 13th Directive refund. More information is below.
- **Supplying and delivering excise goods from another country.** If you sell and deliver goods from another country that are liable to UK Excise Duty (such as tobacco or alcohol) to UK customers, then you must register for VAT in the UK. There's no threshold - everyone must register.

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You supply goods or services from the UK to other countries

If you supply goods and services both inside and outside the UK, then you may need to register for UK VAT if your UK trade alone exceeds the registration threshold.

You don't need to include supplies you make to other countries when calculating your VAT taxable turnover for registration purposes - so leave out of your calculation any goods you supply to other countries, including distance sales, and any services you supply where the place of supply is another country rather than the UK.

Distance selling

If you supply and deliver goods - or have them delivered, for example by mail or another delivery service - to customers in other EU countries who are not registered for VAT and don't have to be registered, this is known as distance selling. You don't include distance sales when working out whether you need to register for UK VAT, but you may need to register for VAT in the countries you sell to.

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Voluntary registration

Benefits of voluntary registration

There are potential cashflow advantages of being able to charge VAT on your sales and claim back VAT on your purchases, which you may benefit from depending on your circumstances. For example:

- if you sell zero-rated items and buy standard-rated items you would receive a VAT refund from HMRC
- if you have not yet sold anything or don't sell anything during a VAT accounting period, you may still be able to claim VAT back on your purchases

If you're thinking about registering voluntarily, you might want to check the rules for reclaiming VAT on purchases made before registration since it is often possible to reclaim some of the VAT you are charged on goods or services that you use to set up your business.

You can apply to backdate your voluntary VAT registration by up to four years. You will have to account for VAT on any VAT taxable supplies you've made after your chosen date, and you won't be able to reclaim any VAT on your purchases unless you have the right evidence, and meet the other conditions for reclaiming VAT.

Responsibilities of voluntary registration

If you decide to voluntarily register for VAT, you have exactly the same responsibilities as someone who must register. You must keep all required VAT records and issue VAT invoices. You also have to complete and submit a VAT Return at regular intervals, along with your payment if one is due.

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Calculating your VAT taxable turnover

Your VAT taxable turnover includes the value of any goods or services you supply within the UK, unless they are exempt from VAT. This means you must also include any supplies you make that would be zero-rated for VAT.

When calculating your VAT taxable turnover you will of course include your sales, but for VAT purposes, you should also include the value of certain other types of supply:

- goods or services that you exchange or barter - see the link below
- supplies of certain services that you receive from suppliers in other countries that you have to 'reverse charge' - see the links below
- where you use your own labour to construct certain building or civil engineering works for your own business use with an open market value of £100,000 or more - see the link below

You must not attempt to avoid registration by artificially separating business activities to reduce your turnover. See the section in this guide on artificial separation.

From 1 January 2010, the reverse charge could apply to many more services you receive from abroad, because a number of key changes to the place of supply rules take effect on that date. There will also be other substantial changes to the VAT rules for international transactions. It's

important that you consider now whether you will be affected by these changes and whether you may need to make changes to any of your software, systems or procedures.

If your VAT taxable turnover is below the threshold

You might be charged a penalty if you register for VAT late, so you should check both of these from time to time:

- the current registration threshold - this changes regularly, and is usually announced in the Budget
- your turnover over the previous 12 months to see if it is above the threshold, or you can expect it to go above the threshold soon

If you took over another VAT-registered business within the last 12 months, then when you regularly check your turnover for the previous 12 months against the threshold, you should take into account the turnover of the business before you bought it as well as your own turnover.

If most or all of the goods and services you supply are zero-rated

If most of your supplies are zero-rated, you may be able to apply for exemption from registration.

You can apply for an exemption from VAT registration by filling in a VAT registration form, stating why you are applying for an exemption from VAT registration. If some of the supplies you make are VAT taxable you must also show that the VAT you would reclaim on your purchases would normally be more than the VAT you would charge on your sales.

If HMRC agrees you can be exempt from VAT registration, you must inform HMRC of any relevant change in circumstances - for example, if you no longer sell mainly zero-rated goods or services.

If HMRC don't give you an exemption, you will become registered for VAT from the day you should have been registered. You will need to account for VAT from that date.

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Do not avoid registering for VAT by artificially separating business activities

If you run more than one business the sales in all those businesses must normally be added together to determine whether or not you must register for VAT.

However, if you are involved in the running of several separate legal entities, you may not need to combine the sales of those businesses to find whether you need to be VAT-registered.

If HMRC decides that you have artificially separated one business into smaller parts to avoid registering for VAT, it can decide that the entire business is a single taxable person and therefore must be registered for VAT. See the description of 'taxable person' in the section in this guide on who can and can't register for VAT.

Situations that HMRC may consider a single taxable person for VAT purposes include:

- **Separate entities selling to registered and unregistered customers.** The VAT-registered entity sells only to VAT-registered customers, and the entity not registered for VAT sells to customers who are not registered for VAT.
- **The same equipment or premises being used by different entities on a regular basis.** The premises and/or equipment are owned by one of the parties, who charges rent to the others. This situation may occur in businesses such as laundrettes and takeaway food operations.
- **Splitting up what is usually a single sale.** This is common in industries such the bed and breakfast trade, where one business supplies the bed and another the breakfast.

If you deliberately avoid registering for VAT, you may be liable to a penalty. For serious offences, the matter will be investigated and you may be prosecuted.

How to register for VAT

To register for VAT you need to fill in one or more forms and submit them to HM Revenue & Customs (HMRC) for approval. You will then receive a VAT registration number and certificate.

Most applications for VAT registration can be completed online. All other VAT registration forms are available to download from the HMRC website and can then be printed, completed by hand and submitted by post.

On this page:

How to register for VAT

To register for VAT you will need to fill in one or more forms and submit them to HMRC for approval. Which form you use and the number of forms you need to complete will depend on your own particular circumstances. Most businesses only need to complete one form. Exceptions include partnerships where you need to complete one extra (simple) form listing details of the partners, and registering a group of companies.

Apply for VAT registration online

Most applications for VAT registration can be completed online but note the sections below if you do business internationally or wish to register a group of companies. All other VAT registration forms are available to download from the HMRC website, and can then be printed, completed by hand and submitted by post. See the other sections in this guide to find out which forms you need and whether they can be completed online or by post.

Waiting for your VAT registration

It can take some time for your application for registration to be considered.

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Registering online for VAT

Basic VAT registration can currently be completed online and can also be completed and submitted on paper.

Advantages of registering online for VAT

Compared to downloading and printing a form, filling it in by hand and posting it, applying for VAT registration online is:

- more secure
- quicker - the form takes less time to fill in and there are no postal delays
- easier due to the on-screen help that guides you through the process
- certain because you get immediate on-screen acknowledgment that HMRC has received your application

How to register online for VAT

To register for VAT Online or use other VAT online services, you first need to register with HMRC Online Services or the Government Gateway.

You can also download the basic VAT registration form and notes to familiarise yourself with the process before you actually register.

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Register for VAT now using HMRC Online Services

If you are already a registered user of HMRC Online Services or the Government Gateway, you can log in to HMRC Online Services now to register for VAT.

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How to apply for basic VAT registration

If you need to register for UK VAT, you should use form VAT 1 to apply for registration. You can complete this form online, or you can download the form, print it and send it back by post.

If you send your registration form by post, send it to:

HM Revenue & Customs
Deansgate
62-70 Tettenhall Road
Wolverhampton
WV1 4TZ

Rates of VAT

There are different VAT rates, depending on the goods or services that are being provided. At the moment there are three rates:

- standard rate - 17.5 per cent
- reduced rate - 5 per cent
- zero rate - 0 per cent

The standard rate of VAT is the default rate - this is the rate that's charged on most goods and services in the UK unless they're specifically identified as being reduced or zero-rated.

Examples of reduced-rated items

These are some examples of goods and services that may be reduced-rated, depending on the product itself and the circumstances of the sale:

- domestic fuel and power
- installing energy-saving materials
- sanitary hygiene products
- children's car seats

This isn't a complete list of reduced-rated items and services.

Examples of zero-rated items

These are examples of goods and services that may be zero-rated, depending on the product itself and the circumstances of the sale:

- food - but not meals in restaurants or hot takeaways
- books and newspapers
- children's clothes and shoes
- public transport

This isn't a full list of zero-rated items.

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Items not covered by VAT

There are some items that aren't covered by VAT. These items are either:

- exempt
- outside the scope of VAT

Exempt items

Some items are exempt from VAT because the law says they mustn't have any VAT charged on them. Items that are exempt include the following:

- insurance
- providing credit
- education and training, if certain conditions are met
- fundraising events by charities, if certain conditions are met
- membership subscriptions, if certain conditions are met
- most services provided by doctors and dentists

Selling, leasing and letting commercial land and buildings are also exempt from VAT. But you can choose - or 'opt' - to give up the right to the exemption and to charge VAT at the standard rate instead. This allows you to reclaim Input Tax when otherwise you wouldn't be able to (see 'The difference between exempt and zero-rated' below).

Outside the scope of VAT

There are some things that aren't in the UK VAT system at all - they're outside the scope of VAT. They are not taxable supplies and no VAT is charged on them. Items that are outside the scope of VAT include:

- non-business activities like a hobby - for example, you might sell some stamps from your collection
- fees that are fixed by law - known as 'statutory fees' - for example the congestion charge or vehicle MoT tests

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The difference between exempt and zero-rated

If you sell zero-rated goods or services they count as taxable supplies, but you don't add any VAT to your selling price because the VAT rate is 0 per cent.

If you sell goods or services that are exempt, you don't charge any VAT and they're not taxable supplies.

This means that you won't normally be able to reclaim any of the VAT on your expenses.

Generally you can't register for VAT or reclaim the VAT on your purchases if you sell **only** exempt goods or services. If you sell **some** exempt goods or services you may not be able to reclaim the VAT on all of your purchases.

If you buy and sell only - or mainly - zero-rated goods or services you can apply to HMRC to be exempt from registering for VAT. This could make sense if you pay little or no VAT on your purchases.

Rates of VAT on different goods and services

If you're registered for VAT and you make VAT taxable supplies you'll have to charge VAT on them.

Normally you charge VAT at the standard rate, unless the goods or services you are selling, and the circumstances in which you're selling them, mean you are allowed to charge a different rate.

There are different rates of VAT, depending on the type of goods or services your business provides. At the moment there are three different rates. They are:

- standard rate - 17.5 per cent
- reduced rate - 5 per cent
- zero rate - 0 per cent

There are also some goods and services that are:

- exempt - so no VAT is charged on them
- outside the scope of the UK VAT system altogether

This guide lists certain goods and services that are reduced-rated, zero-rated, exempt or outside the scope of VAT. It's not a complete list.

On this page:

Different goods and services - and their VAT rate

The following sections list different goods and services that are reduced-rated, zero-rated, exempt or outside the scope of VAT. These rates may only apply if certain conditions are met, or in particular circumstances, depending on some or all of the following:

- who's providing them or buying them
- where they're provided
- how they're presented for sale
- the precise nature of the goods or services
- whether you obtain the necessary evidence
- whether you keep the right records

Other conditions may also apply.

Before using anything other than the standard rate you should study the technical documentation carefully to find out what rate of VAT applies in any particular set of circumstances.

If you need more help with deciding on the right rate of VAT to charge you can contact HM Revenue & Customs (HMRC) for advice.

There are also specific VAT rules that apply to certain trades that affect how you account for VAT, and how much VAT you must pay and can reclaim.

Food and drink, animals, animal feed, plants and seeds

Food and drink for human consumption is, in general, zero-rated but many items are standard-rated, including alcoholic drinks, confectionery, crisps and savoury snacks, food for catering or hot takeaways, ice cream, soft drinks and mineral water.

Because certain food and drink is zero-rated, so too are certain animals and animal feeds, and plants and seeds - if the animal or plant in question is normally used for human consumption.