

# The Essentials of VAT

Course book



...market leaders for VAT training

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## Course book

This document contains the text of the PowerPoint displays that are used during the presentation of the course

### The Essentials of VAT

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## **A Comprehensive Guide to UK VAT**

This book will be a useful source of information  
for you to refer to after the course.

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To download the book please type the following  
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## Contents

Session 1: Introduction to UK VAT .....	1
Session 2: Time of supply .....	8
Session 3: Invoicing.....	10
Session 4: Notice 744C Qualifying Aircraft.....	14
Session 5: International Trade in goods and services.....	18
Session 6: Scenarios.....	27



## **Session 1: Introduction to UK VAT**

### **What is VAT?**

“A tax which is imposed on most goods and services at each stage of production, starting from raw materials to the final product.”

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### **How does VAT work?**

- Suppliers charge output tax
- VAT registered customers can recover input tax
- VAT is borne by the final consumer
  - Usually an individual, but not always

The UK has exited the EU VAT regime...

- GB companies now subject to UK VAT law
- NI companies have dual VAT status – part of the UK system but maintain alignment with EU rules

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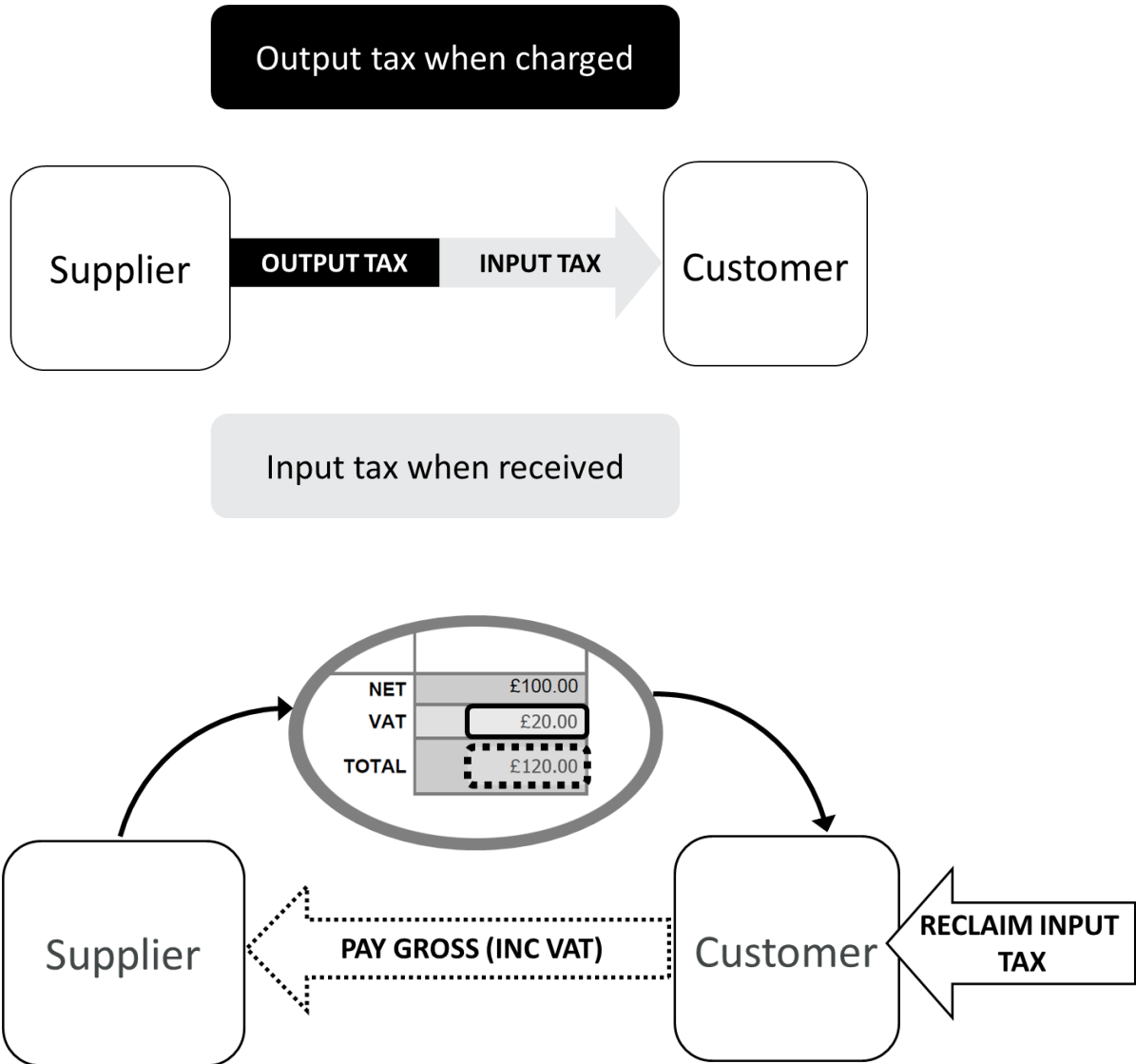
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### How does VAT work?



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## When is VAT payable on supplies?

		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
<b>Supplier to Manufacturer</b>					
Goods	£400	400	80	NIL	80
VAT @ 20%	£80				
<b>Total</b>	<b>£480</b>				
<b>Manufacturer to Wholesaler</b>					
Goods	£1000	600	200	80	120
VAT @ 20%	£200				
<b>Total</b>	<b>£1200</b>				
<b>Wholesaler to Retailer</b>					
Goods	£1800	800	360	200	160
VAT @ 20%	£360				
<b>Total</b>	<b>£2160</b>				
<b>Standard rate to Consumer</b>					
Goods	£3000	1200	600	360	240
VAT @ 20%	£600				
<b>Total</b>	<b>£3600</b>				
				<b>TOTAL VAT</b>	<b>£600</b>

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## When is UK VAT payable on supplies?

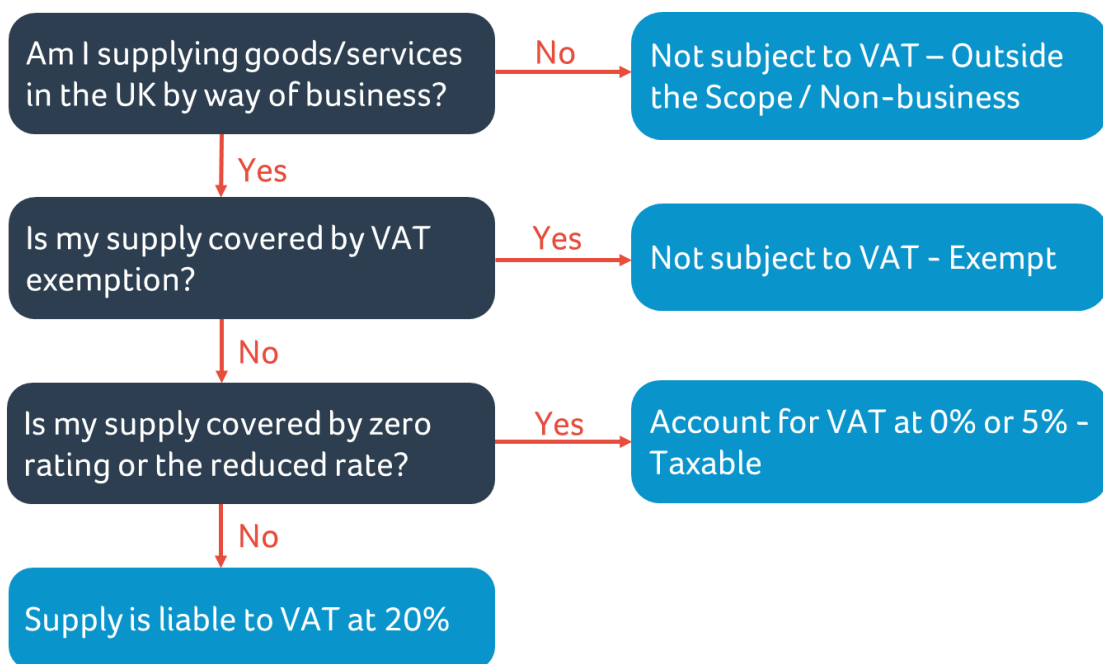
When the supply is...

- ...made in the UK or Isle of Man
- ...by a taxable person
- ...in the course of business
- ...and liable to a positive rate of VAT (5%, 20%)

### Taxable person

A person carrying out business that is registered or required to register for VAT

## VAT liability decision tree







		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
<b>Supplier to Manufacturer</b>					
Goods	£400	<b>400</b>	<b>80</b>	<b>NIL</b>	<b>80</b>
VAT @ 20%	£80				
<b>Total</b>	<b>£480</b>				
<b>Manufacturer to wholesaler</b>					
Goods	£1000	<b>600</b>	<b>200</b>	<b>80</b>	<b>120</b>
VAT @ 20%	£200				
<b>Total</b>	<b>£1200</b>				
<b>Wholesaler to Retailer</b>					
Goods	£1800	<b>800</b>	<b>360</b>	<b>200</b>	<b>160</b>
VAT @ 20%	£360				
<b>Total</b>	<b>£2160</b>				
<b>Standard rate to Consumer</b>					
Goods	£3000	<b>1200</b>	<b>600</b>	<b>360</b>	<b>240</b>
VAT @ 20%	£600				
<b>Total</b>	<b>£3600</b>				
					<b>TOTAL VAT £600</b>

**If the retailer made zero-rated supplies, how much VAT would have been paid to HMRC?**

<b>Zero rate to Customer</b>					
Goods	£3000	<b>1200</b>	<b>ZERO</b>	<b>360</b>	<b>(360)</b>
VAT @ 0%	ZERO				
<b>Total</b>	<b>£3000</b>				
					<b>TOTAL VAT ZERO</b>

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## What is a supply for VAT purposes?

- Anything done for a **consideration** in the course of business
- A supply can be in the form of goods or services
- A voluntary payment is not a supply
  - E.g. gratuities, donations

### Consideration

Usually payment in the form of money but can be of a non-monetary nature

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## What is a supply of goods?

- Transfer of title - passing of exclusive ownership for a consideration
- Normal sale and delivery of goods
- Can also be...
  - Transfer of goods under a hire purchase agreement
  - Providing water, power, heat, refrigeration or ventilation
  - Transferring a major interest in land

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## What is a supply of services?

- Anything done for a consideration other than a supply of goods e.g. accountancy
- Can also be
  - Hire of goods
  - Work done on another person's goods
  - Agreeing to assign or surrender a right

*Services with no consideration are not considered a supply for VAT purposes*

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## **Session 2: Time of supply**

### **Why is the time of supply important?**

The time of supply...

- Determines the period for accounting for VAT
- Establishes the rate of tax to be applied
- Can influence registration
- Can affect recoverability of input VAT

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### **When is the basic tax point?**

- Goods - the date they are delivered or collected
- Services - the date all work except outstanding invoicing is complete

*Is often overridden by the actual tax point...*

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### When is the basic tax point overridden by the actual tax point?

- When a VAT invoice is issued before the basic tax point
- When payment is received before the basic tax point
- When a tax invoice is issued up to 14 days after the basic tax point

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### What is the tax point for a continuous supply of services?

- E.g. telephone services, legal services, construction
- There is no basic tax point
- Tax point is the earlier of...
  - The date a VAT invoice is raised
  - The date of receipt of payment

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### Scenario 1

Goods are delivered to a customer on 27<sup>th</sup> April.  
The invoice is sent on 3<sup>rd</sup> May.

Goods are delivered to a customer on 27<sup>th</sup> April.  
The invoice is sent on 12<sup>th</sup> May.

**When is the time of supply?**

**When is the time of supply?**

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## **Session 3: Invoicing**

### **When do you issue a VAT invoice?**

- Supplies between VAT registered businesses must issue a VAT invoice within 30 days
- You do not have to issue a tax invoice if...
  - Your customer is not VAT registered
  - The supply is wholly exempt or zero rated
  - Your customer operates self-billing
  - You make supplies under the Tour Operators Margin Scheme (TOMS)
  - You sell goods under a second-hand margin scheme
- The information required on a VAT invoice can vary depending on the value of the supply

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## What is a VAT invoice?

- Supplier's name, address and VAT reg. number
- Invoice number
- Customer's name and address
- Tax point
- Date of issue
- Description of goods or services supplied
- Unit price
- Net amounts
- Amount of VAT
- Gross amounts
- Rate of VAT

<b>ABC Ltd</b>		<b>ABC Limited</b> 14 Farnborough Drive, Cheadle, SK13 2NG		
XYZ Ltd 31 Shepherds Avenue South Cerney GL6 1AZ		VAT reg <b>315 4664 63</b> Sales invoice no <b>31456</b>		
		Tax point <b>31.1.20</b>	Invoice date <b>19.2.20</b>	
Quantity	Description and Price	Net Amount £	VAT Rate %	VAT Amount £
15	Tables @ £200	3,000.00		
50	Chairs @ £40	2,000.00		
Cash discount of 5% if paid within 30 days		5,000.00	20	1,000.00
		VAT	1,000.00	
		TOTAL	6,000.00	

## What is a simplified VAT invoice?

Consideration no more than £250 (VAT inclusive)

- Supplier's name, address and VAT no.
- Tax point
- Description of goods
- Gross amount payable
- Rates of VAT analysed with gross amount for each

<b>W.H Boot Ltd</b>	
23 PARK STREET, ST COLUMB MAJOR TR8 7BV VAT REG 564 9921 96	
11:46:28	18AUG20
-----	
	AMOUNT PAYABLE £
DVD PLAYER	120.00
DVDs	24.00
BOOKS	<u>30.00</u>
	<b><u>174.00</u></b>
VALUE OF STANDARD-RATED SUPPLIES INCLUDING VAT AT 20%	144.00
VALUE OF ZERO-RATED SUPPLIES	30.00
THANK YOU FOR SHOPPING AT W.H BOOT LTD Please retain your receipt	



## What is a pro-forma invoice?

- A sales document which is issued in advance of a tax point
- Often used for continuous supplies of services
- It cannot be used to reclaim input tax and should be clearly marked 'this is not a tax invoice'

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## What are single and multiple supplies?

- A supply can contain a mixture of goods and/or services that would ordinarily attract different rates of VAT
- You need to determine whether this is a single or multiple supply - should different rates of VAT be applied or one rate of VAT to the whole supply?
- A supply that comprises a single service from an economic point of view should not be artificially split
- There is no definition of single/multiple supplies in either EU or UK VAT legislation – we have to rely on case law

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## What if two types of supply are invoiced together?

If one supply is clearly ancillary to the other, it is treated as a single supply <i>e.g. food supplied in packaging</i>	If there is a package of different goods, an apportionment is carried out <i>e.g. a food hamper – may be apportioned by cost</i>
If an 'incidental cost' is subject to a separate contract, it is subject to VAT at its own rate <i>e.g. delivery charge which is an optional extra</i>	If an 'incidental cost' is mandatory, it follows the liability of the main supply <i>e.g. delivery charge which is not optional</i>

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### Scenario 2

A high street bookshop supplies books to a customer for £55. The customer separately requests that the books be posted to her and the store charges £3 for delivery.

#### What is the VAT treatment?

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## Session 4: Notice 744C Qualifying Aircraft

### Definitions

- A **qualifying aircraft** is one which is...
  - Used by an airline operating for **reward, chiefly** on international routes
  - Used by a **state institution** and:
    - Weighs less than 8000kg
    - Not designed nor adapted for recreation or pleasure
- Weight is specified as:
  - Civil aircraft – certificate of airworthiness
  - Military aircraft – MOD release documents
- Operating for **reward** means the airline must provide either passenger or freight transport for consideration

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- An international route is any that isn't a domestic route within UK airspace
  - **Chiefly** means that the airlines international routes must exceed its UK domestic operations
- Qualifying aircraft do not have to be used on international routes
- But the airline must operate chiefly on international routes
- Aircraft used wholly or partly other than for the supply of passenger or freight transport are **NOT** qualifying aircraft

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## Definitions

- A **state institution** includes :
  - The Crown
  - Central government departments and agencies
  - Devolved administrations
  - Local authorities (including fire and police)
  - Royal Mail
  - Similar bodies in other countries

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## Zero rating conditions

- Parts and equipment for qualifying aircraft can be zero rated subject to 2 conditions...
  - Must be the sort usually installed or incorporated in the propulsion, navigation, communication or general structure
  - Must be for incorporation or installation in a qualifying aircraft
- Parts and equipment can include part-assembled aircraft e.g. fuselage, wings or hull
- Commercial documentation is needed to evidence eligibility for zero rating
  - If unsure about the use of parts or equipment you should get confirmation from the customer (if not available you must charge at standard rate)

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## Declarations of eligibility from the customer

- It is the suppliers responsibility to ensure the conditions for zero rating are met
- You need some form of documentary evidence...
  - Normal commercial documents
  - A declaration from the buyer
- A declaration is only needed if eligibility is in doubt, e.g. new customer and if obtained you will need...
  - 1 declaration from each airline, or
  - 1 for each aircraft for a state institution

*Notice 744C Section 14 provides suggested wording*

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## What parts and equipment can be zero rated?

- Life rafts
- Propellers and rudders
- Pumps
- Radar and navigation equipment
- Safety equipment
- Consumables
- Expendable and rotatable components
- Communications equipment
- Sanitary fixtures

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## What parts and equipment can't be zero rated?

- Binoculars
- Unfixed furniture
- Soft furnishings
- Phones
- Televisions
- Tools
- Crockery
- Raw materials
- Aircraft ground equipment
- Flight simulators
- Tooling

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## Repair and maintenance

- Repair, maintenance and modification of aircraft or parts can be zero rated subject to any of the following conditions
  - Repair carried out on board
  - Removed and replaced in same aircraft
  - Following repair parts are returned and held in stock as spares for use in qualifying aircraft
  - If unserviceable are exchanged for identical parts which have been reconditioned, repaired or maintained
- Parts or components used to carry out the repair or maintenance can be zero rated if they form part of the supply

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## Session 5: International Trade in goods and services

### Exports – VAT Notice 703

- Since 1<sup>st</sup> January 2021 **all** supplies of goods to countries outside of the UK are treated as exports
- There is no longer any obligation to obtain your customers VAT number
- A supply to a destination outside the UK can be zero rated subject to the following conditions
  - Goods must be exported within specified time limits
  - You must obtain satisfactory evidence of export within those specified time limits

Specified time limits are...

- 3 months generally
- 6 months for supplies involved in processing or incorporation prior to export

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### What if the conditions for zero rating aren't met?

- If you do not hold the correct export evidence or goods haven't been exported in appropriate time limits... the goods supplied become subject to VAT at the appropriate UK rate
- VAT must be accounted for on the taxable element of the invoiced amount or payment received
- For standard rate of 20% VAT calculated at 1/6th
- Include amount in box 1 for relevant VAT period

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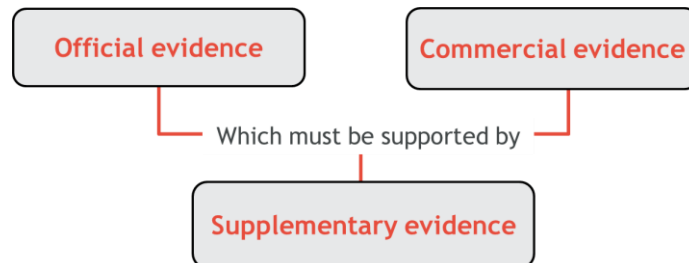
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## Evidence required to zero rate exports

- Evidence of all exports must be kept to prove the time of supply
- Must be obtained within 3 months of the time of supply
- Evidence must be kept for **6 years**



## Types of evidence...

Official evidence	Commercial evidence	Supplementary evidence
Produced by customs systems... <ul style="list-style-type: none"> <li>• GDM (Goods Departed Message) generated by NES</li> <li>• C88</li> </ul>	Describes the physical movement... <ul style="list-style-type: none"> <li>• Sea/air waybills</li> <li>• International consignment notes</li> <li>• Bills of lading</li> <li>• Certificates of shipment with full details of consignment and how it left UK</li> </ul>	<ul style="list-style-type: none"> <li>• Customer's order</li> <li>• Sales contract</li> <li>• Inter-company correspondence</li> <li>• Copy of export sales invoice</li> <li>• Advice note</li> <li>• Consignment note</li> <li>• Packing list</li> <li>• Insurance and freight charges documentation</li> <li>• Evidence of payment or evidence of the receipt of the goods abroad</li> </ul>



## Importance of obtaining evidence for indirect exports

- For indirect export it can be difficult for the supplier to obtain adequate proof of export for zero rating
- Typically ex-works
- Evidence must show the goods have left the UK
- The list of requirements is far more extensive
- Consider including the requirement for this in your sales contract
- Consider taking a deposit for any potential VAT from your customer

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## Supplies of international services VAT Notice 741a

- Supplies of services to EU customers generally treated the same way as those to customers outside the EU
- VAT treatment will follow the 'Place of supply' rules

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## What supplies are international services?

International services involve supplies where...

1. The supplier and customer are in different EU countries
2. Either the supplier or customer is outside the EU
3. Both the supplier and customer are outside the EU
4. The service takes place in another country to the supplier and customer

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## What is the place of supply?

- It dictates which country VAT is due
- There can only be one place of supply
- It is determined by applying general rules

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## How do you determine the place of supply?

1. Are you supplying to a business (B2B) or consumer (B2C)?
2. Where does your customer belong?
3. What type of service are you supplying?

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## What is a B2B and B2C supply?

1. Are you supplying to a business (B2B) or consumer (B2C)?

<b>B2B</b>	<b>B2C</b>
<ul style="list-style-type: none"><li>• Business makes supplies of goods or services for a consideration</li><li>• Those with a mix of business and non business activities are deemed to be business customers</li></ul>	Supplies to private individuals or to charities and government departments with no business activities

### Evidence to support B2B supply:

- VAT registration number
- Business letterheads
- Order form with address and trade registration no.
- Website showing commercial business

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## What are the general rules?

### B2C supplies

- The place of supply is where the **supplier** belongs

### B2B supplies

- The place of supply is where the **customer** belongs

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## What do we mean by the term 'belongs'?

- It is crucial to understanding the place of supply
- 'Where you have a business establishment or some other fixed establishment, including a branch or agency', *HMRC*

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## How does a business establishment differ from a fixed establishment?

- Business establishment
  - Principal place of business e.g. head office
  - Can only be one place
- Fixed establishment
  - Establishment other than the businesses establishment
  - Has technical and human resources to supply services
  - Can be several of them

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## What if you have more than one place of belonging?

- The place of belonging is the place most directly concerned with the particular supply
- You should consider:
  - Which establishment provides the services
  - Which establishment the services are consumed or enjoyed in
  - Which establishment is on contracts and invoices
  - Where the directors are
  - Where decisions that are linked to contracts are made

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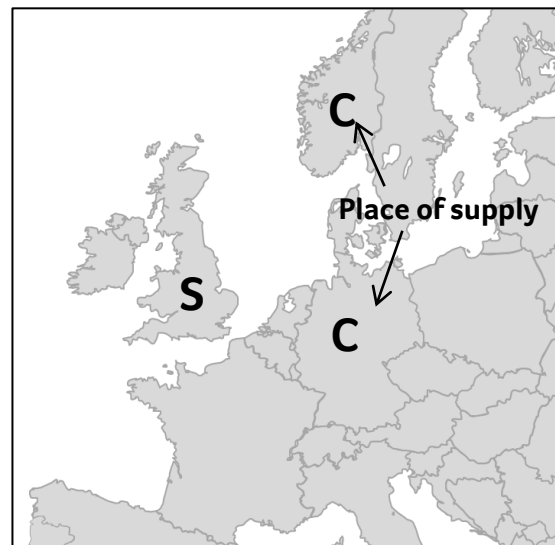
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## B2B services to a customer outside the UK

- The place of supply is where the **customer** belongs
- Outside the scope of UK VAT and the UK supplier does not charge VAT

Example...

- Customers in Germany and Norway
- The place of supply is Norway and Germany
- Supplies are outside the scope of UK VAT



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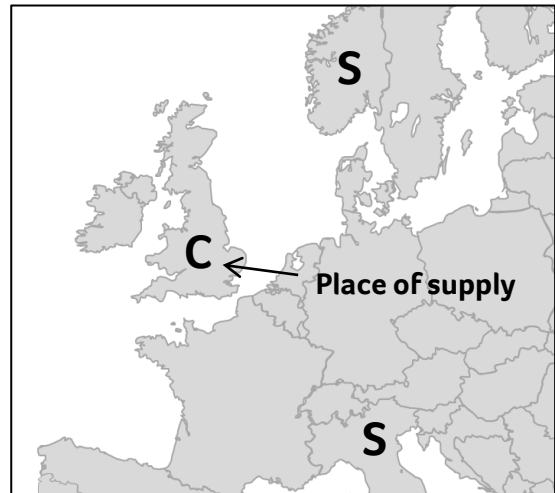
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## B2B services from suppliers outside the UK

- The place of supply is where the **customer** belongs
- Supplier does not charge VAT
- UK customer accounts for VAT and applies the reverse charge

Example...

- Suppliers in Italy and Norway
- The place of supply is the UK
- VAT is accounted for in the UK and the UK customer applies the reverse charge



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## What is the reverse charge procedure?

- The **supplier** issues a reverse charge invoice
  - The supplier does not charge VAT
- It is the **customer's** responsibility to account for VAT if applicable i.e. they belong in an EU member state
  - VAT is calculated at the rate applicable in the customer's country
  - The transaction is reported on the VAT return as an input and output

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## Rules for reverse charge invoices in 2021

- The invoice should not include VAT
- It should include an indication that it is a reverse charge invoice e.g. *'this supply is subject to the reverse charge'*
- The invoice must include the customer's country code and VAT registration number

← These are EU requirements – not applicable in 2021  
←

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## **Session 6: Scenarios**

### **Scenario 3**

Engine service is performed on a qualifying aircraft at Fleetlands UK. The work requires the replacement of the engine components and seals. The engines are shipped back to the customer after service completed.

**What would be the VAT treatment if the customer was each of the following...**

1. Business customer in Norway

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2. Business customer in the UK

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3. Business customer in France

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4. Non business customer in France

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## Scenario 4

Helicopter services are also performed at Fleetlands UK for private individual and the MOD.

**What would be the VAT treatment in each of these cases?**

1. Private individual

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2. The MOD

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## Scenario 5

A UK test facility has designated storage space which is provided to a UK airline and Irish private individual.

**What would be the VAT treatment in each of these cases?**

1. A UK airline

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2. Irish private individual

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## Scenario 6

A UK site has non allocated storage that is supplied to various customers.

**What would be the VAT treatment in each of these cases?**

1. Business customer located in America

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2. Business customer in France

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3. Private individual in Spain

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## Scenario 7

A UK facility provides design services for a number of customers.

**What would be the VAT treatment in each of these cases?**

1. Business customer in United Arab Emirates (UAE)

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2. Private individual in Switzerland

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3. Private individual in Ireland

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4. MOD in the UK

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5. Airline in Germany

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