

The Essentials of UK VAT

Course book



...market leaders for VAT training

Course book

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

The Essentials of UK VAT

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UK Training (Worldwide) Limited
17 Duke Street
Formby
L37 4AN

Website: www.uktraining.com

Email: info@uktraining.com

Telephone: 01704 878988



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Session 1: What is 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.”

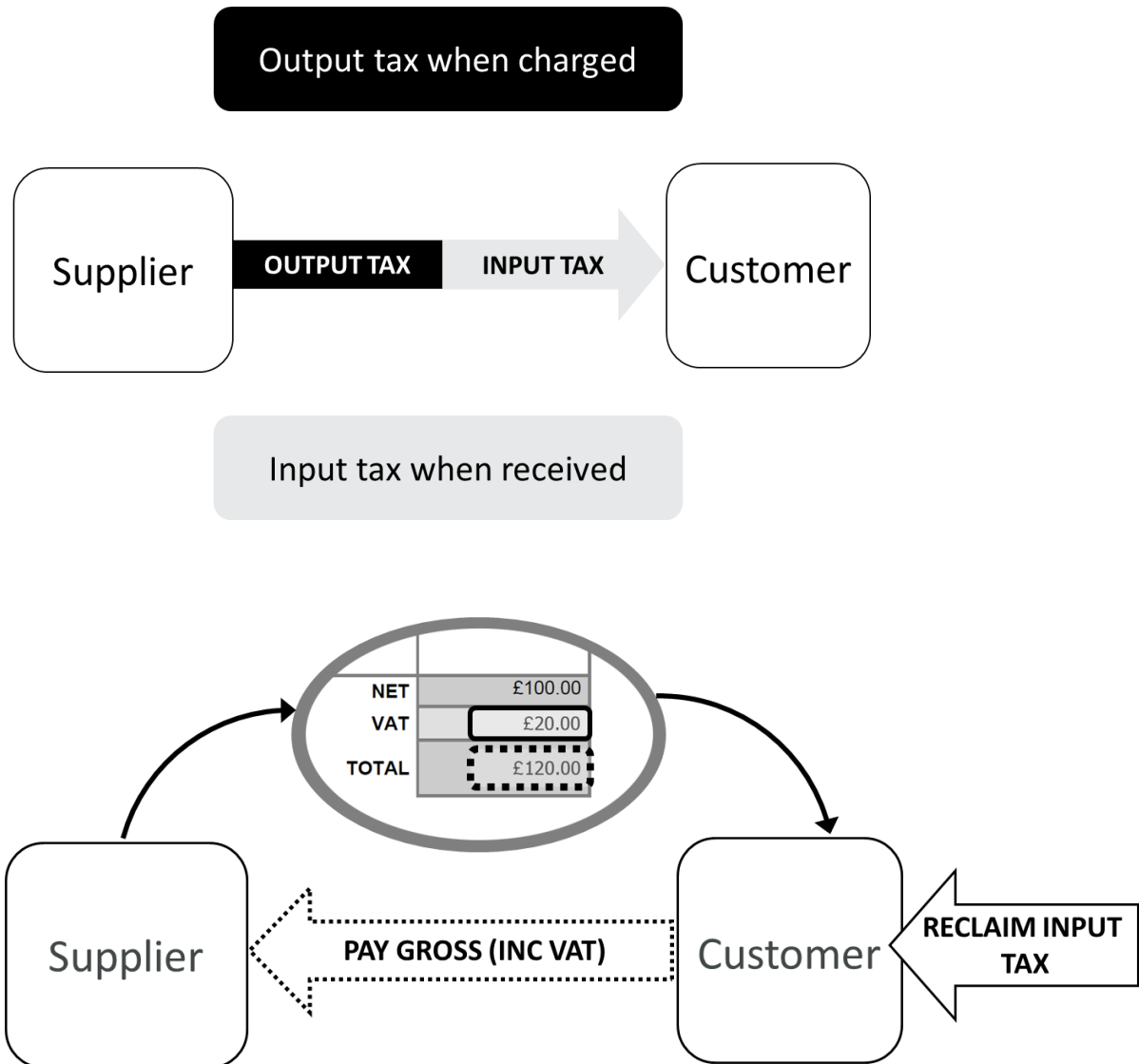
How does VAT work?

- 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

How does VAT work?





When is VAT payable on supplies?

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



VAT registration

- Businesses with taxable supplies in excess of the registration threshold - **£85,000**
 - Historic turnover rule – look back 12 consecutive months
 - Future turnover rule – look forward 30 days
 - Exception if you exceed the threshold temporarily
- Businesses can voluntarily register if taxable supplies are below threshold
- Companies under common control can apply for **group registration**
 - One company nominated as representative and completes returns and accounts for VAT
 - Supplies between companies outside the scope of VAT

When is 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



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

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



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

What are deemed supplies?

Some transactions are supplies for VAT purposes although there is no 'supply' taking place e.g...

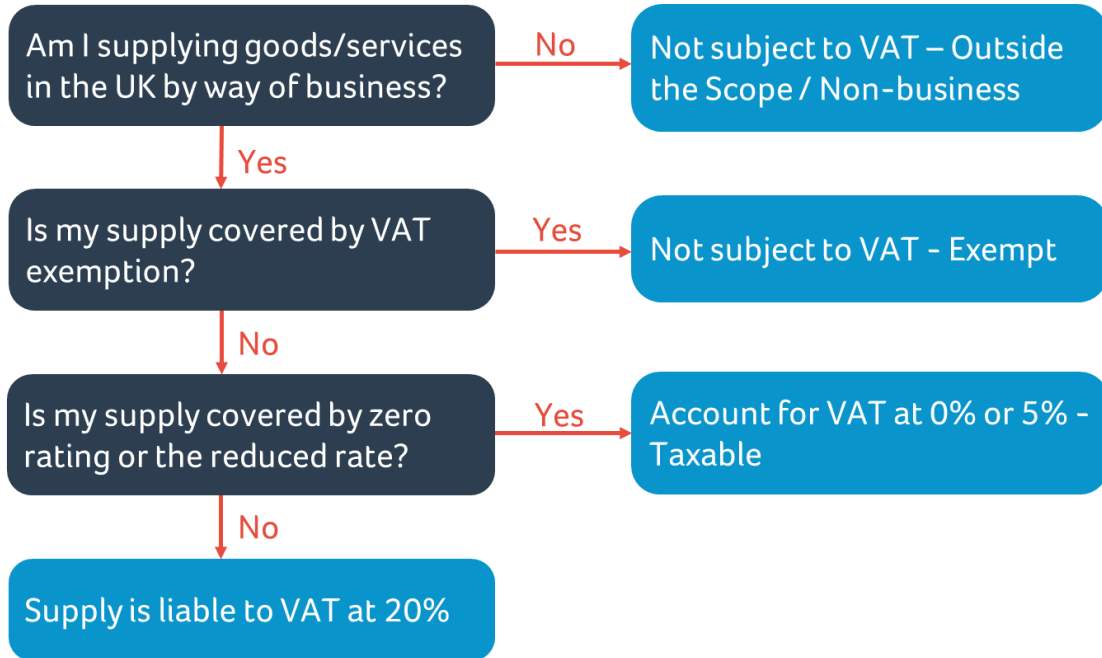
- Goods owned by the business but given away e.g. gifts
- Goods owned by the business used for private use
- Fuel provided for private use
- Services bought by the business but put to private use
- VAT due on assets held at deregistration from VAT

<ul style="list-style-type: none">– Business gifts less than £50 in 12 months - no output tax due– If £50 exceeded output tax due on all– Samples are not liable to VAT



Session 2: VAT rates

VAT liability decision tree





What supplies are zero-rated?

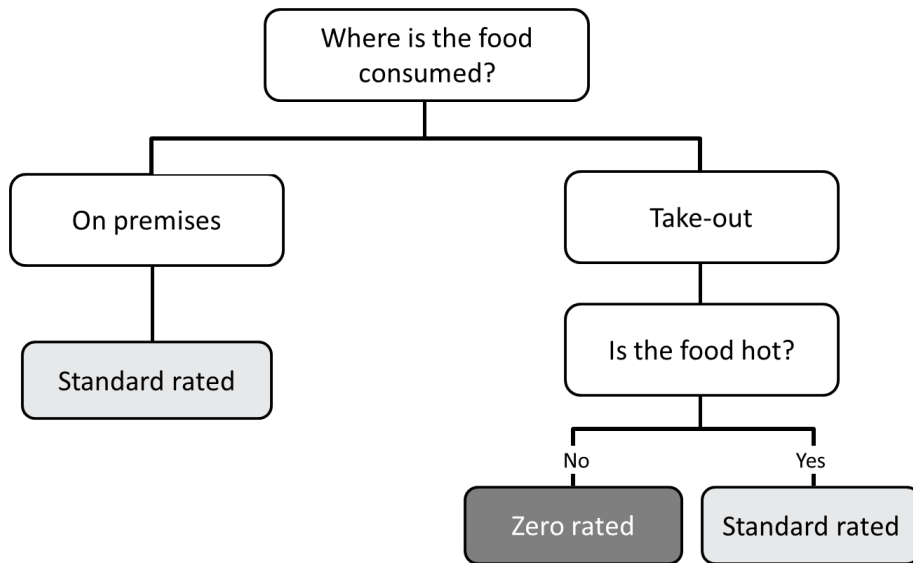
- Food and drink
- Certain clothing and footwear
- Building and construction
- Sewerage services and water
- Printed materials e.g. books
- Drugs and reliefs & equipment for people with disabilities
- Transport, freight, travel & vehicles
- International services
- Supplies related to charities
- Tax-free shops
- **NEW** Women's sanitary products

Supplies of food and drink

- As a basic rule food and drink is zero rated
- There are some exceptions which are standard rated...
 - Confectionery
 - Ice cream
 - Certain drinks – *alcohol, carbonated drinks, fruit drinks, sports drinks, bottled water*
- Specific rules also apply to catering...



Supplies of catering



Supplies of books

- Printed matter is zero rated
 - Newspapers, leaflets, brochures, sheet music and maps
- Since May 2020 zero rate now applies to certain **e-publications**

E-publications include...

- | | |
|--------------|---------------------|
| • Books | • Brochures |
| • Newspapers | • Leaflets |
| • Magazines | • Academic journals |



		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
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Goods	£1800	800	360	200	160
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Total	£2160				
Standard rate to Consumer					
Goods	£3000	1200	600	360	240
VAT @ 20%	£600				
Total	£3600				
TOTAL VAT					£600

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

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



What supplies are exempt?

- Education
- Certain postal services by Royal Mail
- Financial services
- Insurance
- Land
- Health and welfare
- Certain sports activities and physical education
- Burial and cremation
- Betting, gaming and lotteries
- Fund raising events by charities and other qualifying bodies
- Admission to cultural activities
- Antiques and works of art
- Supplies of goods where input tax cannot be reclaimed
- Subscriptions to trade unions, professional and other public interest bodies

Supplies of land

- Generally the sale or rental of land and buildings is exempt
- A commercial property landlord could opt to tax to enable them to reclaim VAT on overheads
 - Allows a business to charge VAT on the sale or rental of commercial property
 - VAT must be charged on all future supplies on the property
 - Applies even if business sells and re-acquires property
 - Applies to sales, rents, short term lets etc
 - Usually applies for 20 years



Supplies of postal services

- Postal services supplied by Royal Mail are exempt
 - Includes postage stamps
- Services provided by Royal Mail that are similar to services provided by other suppliers are standard rated

Supplies of goods where input tax can't be reclaimed

- The following are exempt supplies as the input tax cannot be reclaimed...
 - Resale of cars
 - Goods purchased for business entertainment
 - Goods purchased in the course of making exempt supplies



		VALUE ADDED	PAYABLE OUTPUT TAX	RECLAIMABLE INPUT TAX	NET PAYABLE
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VAT @ 20%	£600				
Total	£3600				
				TOTAL VAT	£600

If the retailer made exempt supplies, how much VAT would have been paid to HMRC?

Exempt to Customer					
Goods	£3000	1200	N/A	NIL	NIL
VAT Exempt	-				
Total	£3000				
				TOTAL VAT	£360



What are the differences between exempt and zero-rated supplies?

Exempt supplies	Zero-rated supplies
<ul style="list-style-type: none">• Exempt supplies are not taken into account when calculating taxable turnover for registration• Traders making only exempt supplies cannot recover input tax	<ul style="list-style-type: none">• Traders making zero-rated supplies (taxable supplies) can recover their input tax

Traders making a mixture of taxable and exempt supplies are 'partially exempt' and recover a proportion of their input tax

What supplies are reduced-rated?

- Supplies of domestic fuel and power
- Residential conversions, renovations and alterations
- Installation of energy-saving materials
- Grant funded installation of heating equipment, security goods or connection of gas supply
- Children's car seats and carry cots
- Contraceptive products
- ~~Women's sanitary products~~
- Smoking cessation products
- Mobility aids for the elderly
- Welfare advice or information



NEW - reduced rate for the hospitality sector

- Temporary 5% reduced rate to hospitality sector between 15 July 2020 and 31 March 2021 - **now extended to the end of September**
 - Then 12.5% for 6 months
 - Back to 20% from April 2022
- Reduced rate covers...
 - Supplies of meals and non-alcoholic drinks eaten in and hot takeaway foods and drinks
 - Hotel and other accommodation
- Applies to restaurants, cafes, pubs, hotels and similar establishments



Session 3: 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

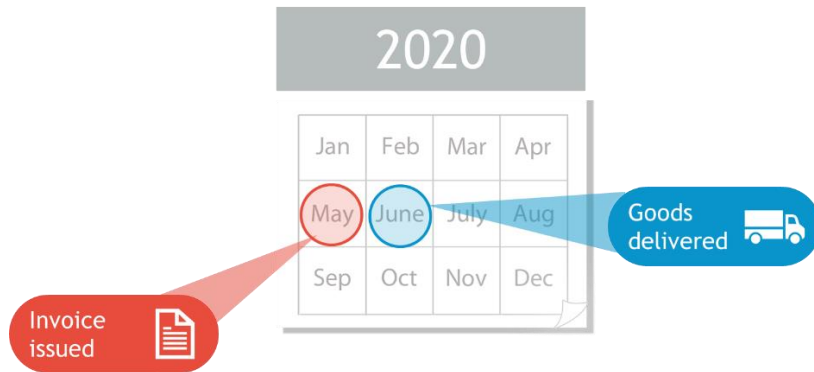
When is the basic tax point?

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

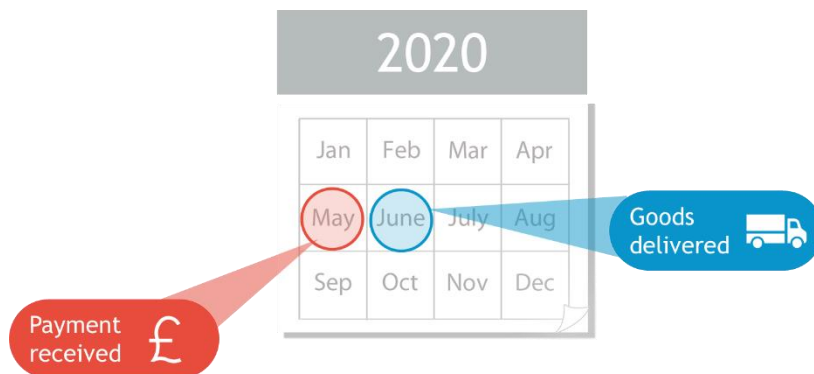
Is often overridden by the actual tax point...

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

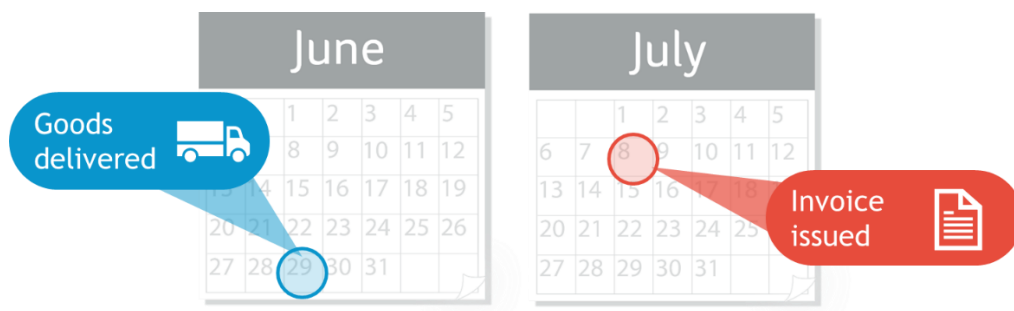
- VAT invoice is issued before the basic tax point



- Payment is received before the basic tax point

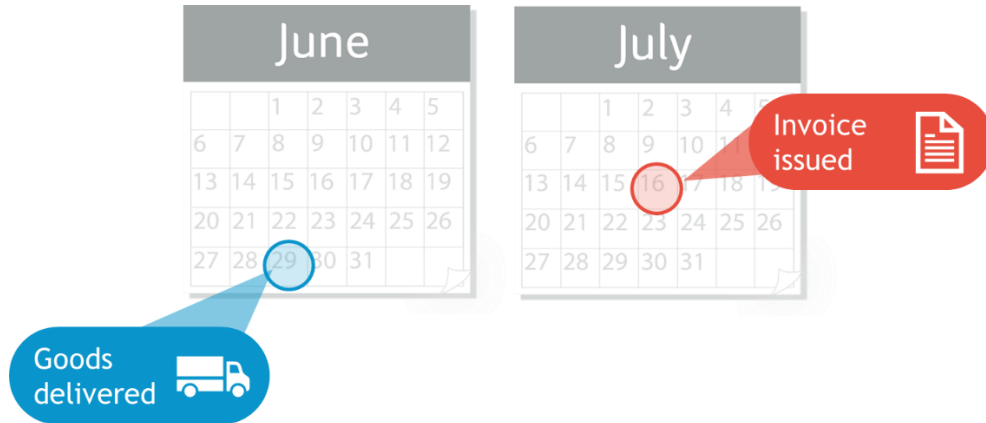


- VAT invoice is issued within 14 days of the basic tax point



If a VAT invoice is issued more than 14 days after the basic tax point

- The basic tax point applies unless HMRC have agreed otherwise
- You can apply to have an extension to the 14 day rule



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



Session 4: 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



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

ABC Ltd		ABC Limited 14 Farnborough Drive, Cheadle, SK13 2NG		
XYZ Ltd 31 Shepherds Avenue South Cerney GL6 1AZ		VAT reg 315 4664 63 Sales invoice no 31456		
		Tax point 31.1.20	Invoice date 19.2.20	
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

W.H Boot Ltd	
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>
	<u>174.00</u>
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	



How do you calculate VAT on a VAT inclusive amount?

- Where items are sold inclusive of VAT you must calculate VAT using the VAT fraction
- The calculation varies between standard and reduced rated items

Standard rated supplies = $1/6$

Reduced rated supplies = $1/21$



How long should records be retained?

- Invoices (supplier and sales), delivery notes, bank statements and accounting records should be kept for at least **six years**
- HMRC do not need to be notified if a business keeps its records on computer, but they must be...
 - Convertible into a satisfactory legible form
 - Accessible on a screen

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'

What is self-billing and how does it work?

- Customer prepares tax invoice rather than supplier
- Agreement that the supplier will not issue a tax invoice for the supply
- Send a copy to the supplier who can then account for output tax
- Keep the names, addresses and VAT numbers of all suppliers who have agreed to self-billing
- Include the supplier's VAT number and all other necessary details on invoice



Session 5: Incidental costs

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

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>



What is a disbursement?

- Where a supplier acting as an agent obtains goods or services for their customer
- The supplier passes on those goods or services at cost, making no profit
- The goods or services form no part of the supplies made by that supplier
- The supplier can therefore invoice the disbursements without VAT
 - Or they can invoice the goods / services as an incidental supply and charge VAT



What is a disbursement?

Our Fees	Net (£)
Solicitors Fee	499.00
Company Purchase Fee	100.00
Telegraphic Transfer Fee	30.00
Lawyer Check Fee	10.00

Disbursements	Net (£)
Land Registry Searches	3.00
Land Registry Registration Fee	20.00
Companies House Registration Fee	23.00

Sub total	685.00
VAT	127.80
Total	812.80

VAT is only due on the fee, not the disbursement



Is this a disbursement?

A consultant is instructed by a client to fly to Scotland to perform some work

- The consultant cannot treat the air fare as a disbursement for VAT purposes
- The supply by the airline is a supply to the consultant, not to the client
- The recovery of outlay by the consultant represents part of the overall value of the supply of services to the client
- The consultant must account for output tax on the full value of this supply

Description	Net (£)
Consultancy work	500.00
Flight	120.00
Sub total	620.00
VAT	124.00
Total	744.00



Session 6: The VAT return

Submitting the VAT return

- VAT returns usually submitted to HMRC every 3 months – known as your ‘accounting period’
- Shows the amount payable to HMRC - VAT due on sales minus the amount of VAT reclaimable on purchases
- Some businesses submit their returns monthly e.g. where repayments are expected
- Virtually all VAT registered businesses submit returns online and pay electronically
 - Using HMRC’s online service or directly via accounting software
- Deadline for submission and payment generally 1 calendar month and 7 days after the accounting period

What is Making Tax Digital (MTD)?

- Introduced for VAT from 1 April 2019
 - October 2019 for more complex businesses
- HMRC Notice 700/22
- MTD basically requires submission of transactional data by electronic means
- Three main elements:
 - Digital record-keeping
 - Digital VAT return submission
 - Digital links
- HMRC introduced a soft landing period – extended to 1 April 2021 in respect of digital links



Making Tax Digital – digital links

- Digital links essentially ensure an end to end digital trail from source of data to VAT return
- This may involve tax compliance software or the use of spreadsheets and bridging software
- Whichever method is used the following conditions must be met
 - No copying or pasting of data between sources
 - No manual re-keying of data
 - Any adjustments will require a digital trail of changes
- An extension can be applied for subject to strict conditions

Digital links – conditions for extension

- Implementation of digital records and submission are unaffected and businesses should already have these in place
- Formal application to HMRC to be made as soon as possible
- Applications considered on a case by case basis
- Applicants will have to explain why they cannot meet the deadline and set out plans for implementation
- Application must also include...
 - Detail of systems that cannot be digitally linked
 - Details of controls in place over manually transferred data



When does a business make payments on account?

- Some businesses are required to make advanced payments – ‘payments on account’
- Will be required if VAT liability is more than £2.3 million in a period up to 12 months
- HMRC will notify a business that it is in the scheme
- Interim payments are made in second and third months of VAT quarter
 - At 1/24 of annual VAT liability
- Payment of balance made with VAT return



How do you complete the VAT return?

VAT due on sales and other outputs	1	
VAT due on acquisitions from other EC Member States	2	
Total VAT due	3	
VAT reclaimed on purchases and other inputs	4	
Net VAT to be paid to HMRC or reclaimed by you	5	
Total value of sales and other outputs excluding VAT	6	
Total value of purchases and other inputs excluding VAT	7	
Total value of all supplies of goods excluding VAT to other EC member states	8	
Total value of all acquisitions of goods excluding VAT from other EC member states	9	



What goes in box 1 of the VAT return?

VAT on sales and on...

- Supplies to staff
- Goods taken out of the business
- Gifts
- Fuel for private motoring
- Self-billing invoices received

What goes in box 2 of the VAT return?

- Did record reverse charge on EU acquisitions up to 31st December 2021
- No entries required for goods purchased from EU since 1st January 2021... unless NI registration

What goes in box 3 of the VAT return?

- Total of boxes 1 and 2
- Identifies total output tax
- Calculated automatically by online submission to HMRC



What goes in box 4 of the VAT return?

Reclaimable input tax which can be recovered...

- On the return for the period in which the time of supply falls, **and**
- If a tax invoice is held when the return is submitted

What goes in box 5 of the VAT return?

- Total of box 3 and box 4
- Identifies VAT due or recoverable
- Calculated automatically on online submission to HMRC

What goes in boxes 6 & 7 of the VAT return?

- Box 6: Total sales including exempt supplies
- Box 7: Total purchases



What should be excluded from boxes 6 & 7?

- | Box 6 |
|---|
| <ul style="list-style-type: none">• VAT• New share capital• Insurance claims• Grants |

- | Box 7 |
|---|
| <ul style="list-style-type: none">• VAT• Wages• PAYE• Dividends• Loan repayments• MOT certificates• Road tax• Business rates |

What should be excluded from boxes 8 & 9?

- | Box 8 |
|---|
| <ul style="list-style-type: none">• Completed in respect of EU sales made up to 31st December 2020• No entry after 1st January 2021 unless NI registration |

- | Box 9 |
|--|
| <ul style="list-style-type: none">• Completed in respect of EU acquisitions made up to 31st December 2020• No entry after 1st January 2021 unless NI registration |



Bad debt relief

- If you make a supply and have accounted for VAT but your customer does not pay, you may be able to claim bad debt relief
- Bad debt relief is available 6 months after the due date for payment
 - E.g. if 30 days credit is offered, then 6 months and 30 days later
- You 'write off' the debt and reclaim the output tax previously paid in **box 4** of the VAT return
- You have up to **4 ½ years** after the due date of payment to do this

Recovery of input tax on delayed payments

- You must repay HMRC recovered input tax on late payment of purchase invoices
- Applies if you have not paid the supplier within six months of the later of...
 - The time of supply
 - The due date of payment
- Adjustment to be made in Box 4 of your VAT return to reduce your input tax claim



Correcting errors on the VAT return

- Can correct any non-deliberate error up to £10,000 (net value)
- Also if error is between £10,000 and £50,000 and less than 1% of box 6
- Adjust next VAT return...
 - Add net value to box 1 if VAT underpaid
 - Add net value to box 4 if VAT owed
- Keep records to show details of the error
- If error unable to be corrected on VAT return or was deliberate, it must be disclosed on form VAT 652
- An error can only be disclosed within **four** years

What is default surcharge?

- A penalty to encourage VAT returns and payments to be made on time
- At the first default, a surcharge liability notice is issued, expiring in one year
- At the second default, a penalty of 2% is charged and the notice is extended for one year
- Penalties then rise to 5%, 10% and 15%
- No penalty is charged at the 2% and 5% rates if it is less than £400



Which penalties apply to returns?

30% penalty - Careless action that leads to underpayment or overclaim

70% penalty - Deliberate but not concealed action

100% penalty - Deliberate and concealed action

- The penalty is based on the 'Potential Lost Revenue', being the VAT understated or overclaimed
- The penalty may be reduced if the error is disclosed to HMRC
- A penalty for 'careless' behaviour may be suspended in whole or in part

VAT payment deferral

- Deferral applied to payments falling due between 20 March 2020 and 30 June 2020
- All UK businesses were eligible and no application needed
- Payments could be delayed until 31 March 2021
- Generally deferral of one quarter's VAT payments due - 7 April, 7 May or 7 June (or monthly payments due on those dates)
- Also applied to annual accounting advanced payments and payments on account
 - I.e. POA due 31 March, 30 April, 31 May, 30 June
- Businesses are required to file VAT returns as normal



VAT payment deferral – when is payment due?

- Any VAT liabilities deferred are due for payment by 31 March 2021
- **New Scheme available** - opt-in to make interest free instalment payments over a longer period up to 31 March 2022
 - Online VAT deferral new payment scheme went live 23rd Feb 2021
 - Scheme closes 21st June 2021
 - Can spread payments with 2 or 11 instalments
 - Payments can start from March 2021
 - Requires you to set up a direct debit and you must submit any outstanding returns from the last 4 years
 - Online scheme cannot be accessed by your agent



Session 7: Reclaiming input tax

Reclaiming input tax

- VAT incurred on goods and services for business use can usually be reclaimed
- To reclaim VAT you need a valid VAT invoice and the supply must be made to a taxable person
- To reclaim VAT incurred by employees e.g. fuel...
 - The employer must have met the full cost, and
 - The supply must be for business purposes

You can't reclaim VAT on...

- Business entertainment
- New motor cars
- Expenses which include input tax invoiced by a person who is not VAT registered
- Input tax attributable to exempt supplies

When is a VAT invoice not required?

A VAT invoice is not needed if the total expenditure is no more than £25 (including VAT) and relates to...

- Telephone calls
- Coin operated machines
- Car parking
- Toll charges



VAT recovery example

A self employed contractor who is **not** VAT registered recovers her accommodation expenses when working out of town on behalf of a VAT registered business...

Can the VAT registered business recover the VAT element of the accommodation costs of the contractor?

Yes, if...

- The VAT invoice is retained by the VAT registered business
- The expenses are incurred solely in connection with the contractor's work for them
- The contractor receives no payment from the businesses own client
- The contractor is paid on a fixed rate which is not associated with the profits of that business

When can't you reclaim input tax?

- Business entertainment
- New motor cars
- Expenses which include input tax invoiced by a person who is not VAT registered
- Input tax attributable to exempt supplies



Input VAT - Business entertainment

What are the rules for reclaiming input VAT on business entertainment?

- Hospitality or entertainment provided free of charge for business purposes is seen as business entertainment
 - Input tax on business entertainment is not reclaimable and applies to...
 - Anyone that is **not** an employee e.g. client
 - Employees and directors acting as hosts to non-employees
- Taking a client to a football game and hospitality in an executive box
 - Going for lunch with a client to discuss business

Business entertainment – Directors

- Events involving *only* directors (or business owners) are classed as business entertaining
- Similarly directors “lunch” meetings will also be treated as business entertaining
- Input tax related to directors can be deductible if in relation to normal business trips or to subsistence
- Directors will be classed as staff if attending an event with other staff members



Employee entertainment – is input tax reclaimable?

Entertainment provided to employees e.g. staff parties, is not considered business entertainment...

- Only employees attending - all input VAT can be reclaimed
- Employees and guests with no charge - apportion and only reclaim for employee
- Employee and guest with a charge - all input VAT can be reclaimed

Input VAT - Subsistence expenses

When can you recover VAT on subsistence expenses?

- You can recover VAT on subsistence expenses provided they are for business purposes
- Subsistence expenses are costs incurred by employees as a result of being away from their place of work for business purposes e.g. hotel, meals
- Also includes on-site canteen facilities for staff
- You can't recover VAT when providing a flat rate for subsistence expenses e.g. £25 per day
 - Unless you request the employee provides receipts for their expenses



VAT recovery on subsistence expenses - example

- Employee goes away on business trip
- Employee goes for lunch with business associate
- The employee's portion of the input tax can be reclaimed - £2.78

TOTAL :	33.35
VAT	5.56



Input VAT - Motor Cars

Can input tax be reclaimed on the purchase of a car?

- **No**, unless it is to be used exclusively for business journeys and is unavailable for private use
- HMRC allow VAT recovery on a car if it is:
 - Stock in trade of a motor manufacturer or dealer
 - Intended to be used primarily as a taxi, driving instruction car, or self-drive hire
 - A genuine “pool” car
 - To be used exclusively for the purposes of your business and would not be made available for the private use of anyone
 - To be used for the purposes of leasing



What is a motor car?

A vehicle that...

- Is normally used on public roads
- Has more than 2 wheels
- Is constructed for carrying passengers
- Has rear seats and side windows

A car is **not**...

- Caravans, ambulances and prison vans
- Vehicles that carry one person only or more than 11
- Vehicles over 3 tonnes unladen weight or payload over 1 tonne
- Vehicles constructed for a special purpose

Can input tax be reclaimed on leasing charges?

- Input tax recovery is subject to a 50% block for long term hire (more than 10 days)
- 50% block does not apply to optional additional charges such as servicing...
 - They must be separately described in the contract hire agreement and be genuinely optional



Input VAT - Fuel

Reclaiming input VAT on fuel

- Input VAT can be reclaimed on fuel for business use
- Businesses can pay for fuel in two ways...
 - Reimbursing an employee an amount related to mileage on business trips
 - Buying all the fuel used by a vehicle, whether private or business-related

Can input tax be reclaimed on employee's mileage allowance?

- Commonly businesses pay employees 45p per mile to cover fuel, tax, insurance etc
- Input tax is reclaimable on the fuel element of the mileage allowance
- Fuel element usually calculated with reference to HMRC's advisory fuel rates - or AA/RAC rates
- A VAT invoice is required e.g. receipt



HMRC advisory fuel rates from 01.06.21

Reclaimable amount is 1/6 of the fuel element of the allowance

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	11p	8p	1600cc or less	9p
1401cc to 2000cc	13p	9p	1601cc to 2000cc	11p
Over 2000cc	19p	14p	Over 2000cc	13p

- Hybrid cars are treated as either petrol or diesel cars
- Advisory rate for fully electric cars is 4 pence per mile

Reclaiming input tax on business and private fuel

Where there is both business and private use there are three options...

- Reclaim all input VAT using the **fuel scale charge**
- Reclaim only the portion used for business use
 - Fuel scale charge not required - employee must keep detailed mileage records
- A business may opt out of reclaiming input tax on fuel

- Output tax accounted for based on the fuel scale charge
- Fixed amount accounted for on VAT return
- All input tax can be reclaimed



Reclaiming input tax on fuel – example

An employee incurs **£100** of company expenditure on petrol in the quarter ended 30.09.21. **60%** of her mileage is business. She drives a car with CO2 emissions of 200...

What are her employer's options?

Option 1	Option 2
Reclaim input tax of £16.67 ($£100 \times 1/6$) Using the fuel scale charge account for output tax of £73 ($438 \times 1/6$)	Reclaim £10.00 ($£60 \times 1/6$) Account for no output tax

Fuel scale charges: 1 May 2021 – 30 April 2022

Businesses must use these new VAT fuel scale charges from the start of their next prescribed accounting period beginning on or after 1 May 2021.			
CO2 band	VAT fuel scale charge, 3 month period (£)	VAT on 3 month charge (£)	VAT exclusive 3 month charge (£)
120 or less	145	24.17	120.83
125	219	36.50	182.50
130	233	38.83	194.17
135	247	41.17	205.83
140	262	43.67	218.33
145	277	46.17	230.83
150	292	48.67	243.33
155	306	51	255
160	321	53.50	267.50
165	336	56	280
170	350	58.33	291.67
175	364	60.67	303.33
180	379	63.17	315.83
185	394	65.67	328.33
190	409	68.17	340.83
195	423	70.50	352.50
200	438	73	365
205	453	75.50	377.50
210	467	77.83	389.17
215	481	80.17	400.83
220	496	82.67	413.33
225 or more	511	85.17	425.83



Input VAT - Phones

Mobile phones – when can VAT be reclaimed?

- VAT can be reclaimed on the purchase of a mobile phone
- All VAT can be reclaimed where **all calls** are for business purpose
- Can also be fully reclaimed on standing charges even where there is minimal private use
- If the employee is charged for private use, all input tax can be reclaimed, but output tax must be accounted for on the charge
- If private use is freely allowed, input tax must be apportioned between private and business

What about the use of home telephone, calls and internet?

- VAT cannot be claimed on the installation of a home telephone line
 - Unless the line is solely for business use
- For a single line, where the business pays for business calls, VAT can be claimed
 - Where there is a dedicated business-only line, VAT can be claimed in full
- In principle VAT cannot be claimed on the provision for home internet



Session 8: VAT reverse charge for the construction industry

Overview of the new reverse charge for the construction industry

- Applies to B2B construction supplies from 1 March 2021
- Customer accounts for supplier's output VAT
- Key conditions
 - Supply for VAT consists of construction services and materials
 - It is at standard or reduced rate VAT
 - Between UK VAT registered supplier and customers
 - Supplier and customer are registered for CIS
 - Customer intends to make an ongoing supply of construction services to another party
 - Supplier and customer are not connected

What services are included?

- Construction, alteration, extensions, demolition or dismantling buildings or structures
- Construction, alteration, extensions, demolition or dismantling forming part of land
- Pipelines, water mains wells, sewers etc
- Installing heating, lighting, air conditioning, ventilation etc
- Internal cleaning in course of construction
- Painting or decorating surfaces of a structure
- Services forming an integral part of the above



When does the reverse charge not apply?

- Reverse charge does not apply to the following
 - Supplies of VAT exempt building and construction services
 - Supplies not covered by CIS unless linked to such a supply
 - Supplies of staff/workers
- Reverse charge does not apply to the following customers
 - Non VAT registered
 - End-user – not making onward supply
 - Intermediary suppliers who are connected such as a landlord



Session 9: International supplies

Importing goods

- Applies to goods from anywhere outside the UK since 1st January 2021
- Import VAT is charged by HMRC, not the supplier
- Payment is due at the point of entry, but there are options to avoid this e.g. Postponed VAT Accounting
- Charged at 20% or the rate appropriate to the goods
- Charged on the value of the goods including customs duty and incidental costs e.g. delivery
- Import VAT can be reclaimed as input tax on **box 4** of the VAT return

Importing goods – postponed VAT accounting

- Instead of paying import VAT on arrival, VAT registered businesses can account for import VAT on their VAT return
- This is called **postponed VAT accounting**
 - You do not need to be authorised
 - Goods imported must be for your use
 - Applies to goods from anywhere in the world – not just EU
- VAT is declared as an output and input on the same VAT return
 - Avoids the need to pay VAT and reclaim at a later date
 - Normal rules for VAT recovery apply



How does postponed VAT accounting work?

- Customer in the UK buys goods from a supplier in the EU
- Calculate VAT on the invoiced amount
- Include VAT of £200 in box 1 and 4 of the VAT return
- Also include supply in box 7

Exporting goods

- Applies to goods going to anywhere outside the UK since 1st January 2021
- UK VAT registered businesses zero rate all exports subject to the following conditions...
 - The goods leave the UK within 3 months of the time of supply
 - Evidence of export is retained
- The time of supply for exports is the earlier of...
 - Goods sent or collected
 - Full payment is received
- Import VAT and duty will be due when goods arrive at their destination



Evidence of export

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

Distance selling

How have B2C sales to the EU changed?

- Distance selling thresholds and rules no longer available to UK businesses (only apply to EU members)
- Since 1 January 2021 sales from the UK to consumers in the EU are zero-rated for UK VAT as exports
- The customer will be liable to import VAT and customs duties (possibly at the border) – likely to cause problems for customer
- GB businesses will have access to an Import One Stop Shop (IOSS) from **1 July 2021**
 - Part of the EU VAT e-commerce package replacing distance selling for EU member states
 - An extension of the MOSS scheme (*more later*)



What is the Import One Stop Shop (IOSS)?

- From 1st July 2021 EU exemption for imports with values not exceeding €22 removed and all imports into the EU are subject to VAT
- IOSS introduced to facilitate and simplify distance sales of goods to EU consumers with value less than €150
- Simplifies process for the buyer – VAT charged at point of sale by the supplier
- Goods must be dispatched from outside the EU
- Requires UK business to register in a member state
 - Each member state has an online IOSS portal

How the IOSS works...

- UK supplier charges and collects VAT at point of sale
 - Must charge the VAT rate applicable in the customer's country
- No import VAT or customs duty payable by customer
- Supplier will label goods showing IOSS ID number
 - Includes less detailed customs declaration
- IOSS ID verified in country of destination – goods can then continue to customer
- Supplier declares VAT on IOSS return and pays to appropriate member state via their IOSS portal
 - All IOSS supplies to EU countries on one return



IOSS – Other considerations

- Registering
 - If supplier is established in the EU they must register in that EU member state
 - If not established in the EU you can choose which EU member state to register for IOSS in
- Valuing goods - €150 limit is the price of the goods
 - Excludes incidental costs such as insurance and transport not included in price
 - Excludes other separately itemised costs such as licence fees
 - Includes other taxes or charges charged by the customs authority



International Services

VAT treatment of international services

International services follow the 'place of supply' rules...

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

Examples...

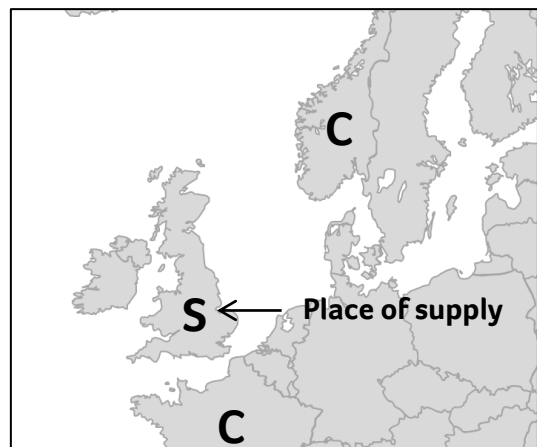
- Accounting
- Consultancy
- Solicitors
- Engineers/Installers
- Electronic supplies
- Land related
- Transport
- Performers
- Catering
- Hire

B2C services – what is the general rule?

- The place of supply is where the **supplier** belongs
- The supplier charges and accounts for VAT
- There are many exceptions apply to the B2C general rule

Example...

- Supplier in the UK and customers in France and Norway
- The place of supply is the UK
- VAT is accounted for in the UK and the UK supplier charges UK VAT



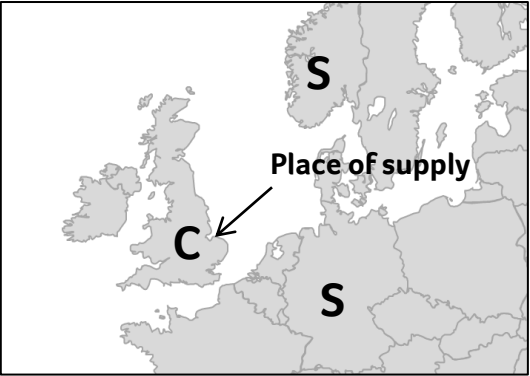


B2B services – what is the general rule?

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

Example...

- Suppliers in Germany and Norway
- The place of supply is the UK
- VAT is accounted for in the UK and the UK



How does a UK customer apply the reverse charge?

- The overseas supplier does not charge VAT on their invoice
- The customer calculates VAT at 20% on the invoiced amount
- VAT is added to box 1 and box 4 of the VAT return
- The invoiced amount is added to box 6 and 7 of the VAT return



Are there any exceptions for international services?

- Land related services
 - Taxed where the land is
- Admission to educational or entertainment events and exhibitions
 - Taxed where the event takes place
- Other exceptions include
 - Transport services
 - Intangible services
 - Intermediary services
 - Work on goods
 - Digital services (BTE)

VAT MOSS scheme...

- Non-union VAT MOSS scheme available to UK suppliers of digital services
- Traders can register in just **one EU member state** rather than all member states in which services are supplied
- Currently only used for digital services – but from 1 July 2021, MOSS will be extended and will cover all B2C supplies of services where the place of supply is deemed to be in the EU
 - E.g. Admission to cultural, educational, sporting events, transport hire, valuation

EU commission press release “Modernising VAT for cross-border e-commerce” – September 2020



Case Study:

Summary of Sales and Purchases made during the first VAT quarter

SALES	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>452,000</u>	<u> </u>
 PURCHASES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	<u> </u>



How should this be presented on the VAT Return?

VAT due on sales and other outputs	1	
VAT due on acquisitions from other EC Member States	2	
Total VAT due	3	
VAT reclaimed on purchases and other inputs	4	
Net VAT to be paid to HMRC or reclaimed by you (Difference between boxes 3 & 4)	5	
Total value of sales and other outputs excluding VAT	6	
Total value of purchases and other inputs excluding VAT	7	
Total value of all supplies of goods excluding VAT to other EC member states	8	
Total value of all acquisitions of goods excluding VAT from other EC member states	9	



What amount would appear in box 1 of the VAT Return? 100,500

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>452,000</u>	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	



What amount would appear in box 2 of the VAT Return?

0

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>452,000</u>	<u></u>
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	<u></u>

What amount would appear in box 3 of the VAT Return?

100,500

(Sum of boxes 1 & 2)



What amount would appear in box 4 of the VAT Return?

70,600

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	<u>452,000</u>	<u> </u>
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	<u>413,000</u>	<u> </u>

What amount would appear in box 5 of the VAT Return?

29,900

(Difference between boxes 3 and 5)



What amount would appear in box 6 of the VAT Return?

455,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant	5,000	
Insurance claim	2,000	
	* 452,000	
		445,000
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

* - Box 6 omits any items of income which are outside the scope of VAT



What amount would appear in box 7 of the VAT Return?

375,000

INCOME	£	VAT
Standard rated sales to UK customers	400,000	80,000
Reduced rated UK sales	10,000	500
Goods sold to customers in America	20,000	0
Goods sold to company in France	10,000	0
Exempt sales	5,000	
Grant		
Insurance claim		
	445,000	
EXPENDITURES		
Trade purchases UK	250,000	50,000
Car for salesman	20,000	4,000
UK entertainment:		
Staff	1,000	200
Overseas customers	2,000	400
Overseas suppliers	2,000	400
Wages	36,000	
Rates	2,000	
Goods bought from Germany	30,000	6,000
Consultancy services from USA	10,000	2,000
Goods bought from Japan	60,000	12,000
	413,000	

What amount would appear in box 8 of the VAT Return?

0

What amount would appear in box 9 of the VAT Return?

0



How should this be presented on the VAT Return?

VAT due on sales and other outputs	1	100,500
VAT due on acquisitions from other EC Member States	2	0
Total VAT due	3	100,500
VAT reclaimed on purchases and other inputs	4	70,600
Net VAT to be paid to HMRC or reclaimed by you (Difference between boxes 3 & 4)	5	29,900
Total value of sales and other outputs excluding VAT	6	455,000
Total value of purchases and other inputs excluding VAT	7	375,000
Total value of all supplies of goods excluding VAT to other EC member states	8	0
Total value of all acquisitions of goods excluding VAT from other EC member states	9	0



UK Training (Worldwide) Limited
17 Duke Street
Formby
L37 4AN

w www.uktraining.com
t 01704 878988
e info@uktraining.com

