Tolley's Techwise Value Added Tax 2014-15



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Written by the Tolley Exam Training Team



Tolley®

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Introduction

About this book

Tolley is a familiar name for those in practice trying to keep up to date with changes in legislation. Now Tolley have launched *Techwise*. The *Techwise* manuals are specifically designed to provide a text that is written in plain English and easy to understand, in order to provide practical answers to your tax issues. *Techwise* uses easy to follow, worked illustrations and the clear, concise notes break down complex tax areas and provide a point of reference for common technical problems.

Statutory references are provided wherever appropriate throughout *Techwise* and frequently used Rates and Allowances have been included following the contents pages.

Techwise is based on UK law as it stands, up to and including Finance Act 2014. The *Techwise* books are updated annually to show the changes introduced by the Finance Acts.

The authors

Techwise has been written by the Tolley Exam Training author team. Tolley Exam Training has been writing material and running classroom courses for professional tax exams including ATT, CTA and ADIT for over 10 years.

Tolley Publishing

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Rates and Allowances

PERSONAL INCOME TAX

	2014/15	2013/14
Rates	%	%
Starting rate for savings income only	10	10
Basic rate for non-savings and savings income only	20	20
Basic rate for dividends	10	10
Higher rate for non-savings and savings income only	40	40
Higher rate for dividends	32.5	32.5
Additional and trust rate for non-savings and savings income	45	45
Additional and trust rate for dividends	37.5	37.5
Thresholds	£	£
Savings income starting rate band	1-2,880	1-2,790
Basic rate band	1-31,865	1-32,010
Higher rate band	31,866-150,000	32,011-150,000
Standard rate band for trusts	1,000	1,000
Allowances and Reliefs	£	£
Personal allowance if born after 5 April 1948 ⁽¹⁾	10,000	9,440
Personal allowance if born between 6 April 1938 and 5 April 1948 ⁽¹⁾	10,500	10,500
Personal allowance if born before 6 April 1938 ⁽¹⁾	10,660	10,660
Married couple's allowance ⁽²⁾	8,165	7,915
– Income limit for personal allowances (born before 6 April 1948) ⁽³⁾	27,000	26,100
- Minimum allowance	3,140	3,040
Blind person's allowance	2,230	2,160
'Rent-a-room' limit	4,250	4,250
Enterprise investment scheme relief limit	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	100,000	100,000
Social investment relief	1,000,000	N/A
Employer supported childcare – basic rate taxpayer ⁽⁴⁾	£55 per week	£55 per week
	•	

Notes

The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.

Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.

This is the income limit for abatement of the higher personal allowances and then the married couple's allowance by £1 for every £2 over the limit.

For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

Child benefit charge

Withdrawal rate

Adjusted net income >£50,000 Adjusted net income >£60,000 1% of benefit per £100 of income between £50,000 and £60,000 Full child benefit amount assessable in that tax year

Pension contributions

	Annual allowance ⁽¹⁾ £	Lifetime allowance £	Minimum pension age
2014/15	40,000	1,250,000	55
2013/14	50,000	1,500,000	55
Basic amount qualifying f	for tax relief: £3,600		

Note

(1) The annual allowance is increased by any unused relief from the previous three years. When considering unused relief, the annual allowance for all years before 2011/12 is deemed to be £50,000.

Official rate of interest		2014/15	2013/14
		3.25%	4.00%
ITEPA mileage rates			
Vehicles		2014/15	2013/14
Car or van ⁽¹⁾	First 10,000 business miles	45p	45p
	Additional business miles	25p	25p
Motorcycles		24p	24p
Bicycles		20p	20p
Passenger payments ⁽²⁾		5p	5p

Notes

Company cars and fuel

Emissions	Emissions	Car benefit $\%^{(1)(2)(3)}$	Car benefit %(1)(2)(3)
2014/15	2013/14	2014/15	2013/14
0g/km	0g/km	0%	0%
1-75g/km	1-75g/km	5%	5%
76-94g/km	76-94g/km	11%	10%
95g/km or more	95g/km or more	12% + 1% for every additional	11% + 1% for every additional
		whole 5g/km above threshold	whole 5g/km above threshold
210g/km or more	215g/km or more	35%	35%

⁽¹⁾ For NIC purposes, a rate of 45p applies irrespective of mileage.

⁽²⁾ Passenger payments also apply to volunteer drivers.

Fuel benefit base figure⁽²⁾

2014/15 2013/14 £21,700 £21,100

Notes

(1) Apply the car benefit percentage to list price of the vehicle.

^{(3) 3%} supplement for diesel cars.

Taxable benefits for vans	2014/15	2013/14
Van benefit – No CO ₂ emissions	0	0
Van benefit – CO ₂ emissions>0g/km	£3,090	£3,000
Fuel benefit	£581	£564

NATIONAL INSURANCE CONTRIBUTIONS

- N						
Class 1 limits		2014/15			2013/14	
		Monthly	Weekly		Monthly	Weekly
Lower earnings limit (LEL)	£5,772	£481	£111	£5,668	£473	£109
Primary threshold (PT)	£7,956	£663	£153	£7,755	£646	£149
Secondary threshold (ST)	£7,956	£663	£153	£7,696	£641	£148
Upper accruals point (UAP)	£40,040	£3,337	£770	£40,040	£3,337	£770
Upper earnings limit (UEL)	£41,865	£3,489	£805	£41,450	£3,454	£797
Employment allowance				2014/15	20	13/14
Per year, per employer				£2,000		0
, , , , , , , , , , , , , , , , , , , ,				, , , , , ,		
Class 1 primary contribution rates				2014/15	20	13/14
Not contracted out						
Earnings between PT and UEL				12%		12%
Earnings above UEL				2%		2%
Contracted out - salary related occupation	al pension	scheme ⁽¹⁾				
Earnings between PT and UAP				10.6%	1	0.6%
Earnings between UAP and UEL				12%		12%
Earnings above UEL				2%		2%
Rebate on earnings between LEL and PT				1.4%	1	.4%
Class 1 secondary contribution rates						
Not contracted out						
Earnings above ST				13.8%	1	3.8%
Contracted out - salary related occupation	al pension	scheme				
Earnings between ST and UAP				10.4%	1	0.4%
Earnings above UAP				13.8%	1	3.8%
Rebate on earnings between LEL and ST				3.4%	3	3.4%
Other contribution limits and rates				2014/15	20	13/14
Class 1A contributions				13.8%	1	3.8%
Class 1B contributions				13.8%	1	3.8%

⁽²⁾ Apply the same car benefit percentage to the fuel benefit base figure to calculate the fuel benefit.

Other contribution limits and rates	2014/15	2013/14
Class 2 contributions		
Normal rate	£2.75 pw	£2.70 pw
Small earnings exception	£5,885 pa	£5,725 pa
Class 3 contributions	£13.90 pw	£13.55 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£7,956	£7,755
Annual upper profits limit (UPL)	£41,865	£41,450
Percentage rate between LPL and UPL	9%	9%
Percentage rate above UPL	2%	2%

CAPITAL GAINS TAX

Annual exempt amount for individuals	2014/15 £11,000	2013/14 £10,900
CGT rates for individuals		
Gains qualifying for entrepreneurs' relief(1)	10%	10%
Gains falling within remaining basic rate band	18%	18%
Gains exceeding basic rate band ⁽¹⁾⁽²⁾	28%	28%

Notes

⁽²⁾ Rate also applies to the gains of PRs.

Entrepreneurs' relief Relevant gains (lifetime maximum)	2014/15 £10 million	2013/14 £10 million
UK and non-UK resident non-natural persons	2014/15	2013/14
Gains on high value residential property ⁽¹⁾⁽²⁾	28%	28%

Notes

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

ATED is payable by UK and non-UK resident non-natural persons.

Residential property value	From 1.4.14	From 1.4.13
$>$ £2 $-$ ≤5 $m^{(1)}$	£15,400	£15,000
>£5-≤10m	£35,900	£35,000
>£10-≤20m	£71,850	£70,000
>£20m	£143,750	£140,000

⁽¹⁾ Rates also apply to the gains of trusts and individuals paying the remittance basis charge.

⁽¹⁾ Applies to properties worth over £2m in 2014/15, reducing to £1m from 2015/16 and further reducing to £500,000 from 2016/17.

⁽²⁾ Apportion gain if property owned before 6 April 2013.

Note

From 1 April 2015 a new lower threshold for property with a value greater than £1m but not exceeding £2m will be introduced with an annual charge of £7,000. From 1 April 2016 a second lower threshold will be introduced for property with a value greater than £0.5m but not exceeding £1m with an annual charge of £3,500.

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Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

Retail Prices Index

Where Retail Price Indices are required, it should be assumed that they are as follows.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	_	_	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	255.4*	256.2*	256.8*	256.4*	256.4*	257.8*	258.7*	258.7*	258.9*	260.2*
2015	259.4*	261.1*	262.3*	263.2*	263.7*	263.4*	263.4*	264.7*	265.7*	265.7*	265.9*	267.3*
* = as	sumed											

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

			2014/15	2013/14
Motoring expenses	First 10,000 business miles		45p per mile	45p per mile
	Additional business miles		25p per mile	25p per mile
Business use of home	25-50 hours use		£10 per month	£10 per month
	51-100 hours use		£18 per month	£18 per month
	101+ hours use		£26 per month	£26 per month
Private use of business	No of persons living			
premises	there:	1	£350 per month	£350 per month
		2	£500 per month	£500 per month
		3+	£650 per month	£650 per month

CAPITAL ALLOWANCES

	$6.4.14 - 5.4.15^{(1)}$	6.4.13-5.4.14 ⁽¹⁾
Annual investment allowance (AIA) ⁽²⁾	100%	100%
WDA on plant and machinery in main pool ⁽³⁾	18%	18%
WDA on plant and machinery in special rate pool ⁽⁴⁾	8%	8%
WDA on patent rights and know-how	25%	25%

Notes

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Dates for companies are 1 April–31 March.

^{(2) 100%} on the first £500,000 from April 2014 to December 2015 (£250,000 from 1 January 2013 to 5 April 2014, £25,000 from April 2012 to 31 December 2012 and £100,000 before April 2012) of investment in plant and machinery (except cars).

The main pool rate applies to cars with CO₂ emissions of not more than 130g/km (160 g/km if acquired between 6 April 2009 and 5 April 2013 / 1 April 2009 and 31 March 2013 for companies).

The special pool rate applies to cars with CO_2 emissions greater than 130g/km (160g/km if acquired between 6 April 2009 and 5 April 2013 / 1 April 2009 and 31 March 2013 for companies).

⁽⁵⁾ Cars acquired before 6 April 2009 (1 April for companies) continue to be written down based on cost rather than emissions, with a maximum annual written down allowance of £3,000. The TWDV c/f is then transferred to the main pool in the first accounting period to start after 5 April 2014.

100% First year allowances available to all businesses

- (1) New energy saving plant and machinery, and water efficient plant and machinery.
- (2) Capital expenditure incurred by a person on research and development.
- (3) Renovation or conversion of vacant business premises, in a designated Enterprise Area, for the purpose of bringing those premises back into business use (until April 2017).
- (4) New zero-emission goods vehicles (between April 2010 and April 2018).
- (5) New cars registered between 16 April 2002 and 31 March 2015 if the car either emits not more than 95g/km of CO₂ or it is electrically propelled.

CORPORATION TAX

Financial year	2014	2013
Main rate	21%	23%
Small profits rate	20%	20%
Augmented profit limit for small profits rate	£300,000	£300,000
Augmented profit limit for marginal relief	£1,500,000	£1,500,000
Standard fraction	1 / 400	3 / 400
Marginal rate	21.25%	23.75%

EU definition of small and medium sized enterprises (1)(2)(3)

		Small	Medium
Employees		< 50	<250
Turnover		≤€10m	≤€50m
Balance sheet assets		≤€10m	≤€43m

Notes

VALUE ADDED TAX

From 4.1.11	Standard rate 20%	VAT fraction 1/6
Limits Annual registration limit De-registration limit	From 1.4.14 £81,000 £79,000	From 1.4.13 £79,000 £77,000
Thresholds Turnover threshold to join scheme Turnover threshold to leave scheme	Cash accounting £1,350,000 £1,600,000	Annual accounting £1,350,000 £1,600,000

INHERITANCE TAX

Death rate	40% ⁽¹⁾	Lifetime rate	20%
------------	--------------------	---------------	-----

⁽¹⁾ Must meet the employees criteria and *either* the turnover or the balance sheet assets criteria.

⁽²⁾ Thresholds apply for transfer pricing and distributions received by small companies.

⁽³⁾ Extended definition for R&D expenditure: <500 employees; turnover ≤€100m; assets ≤€86m.

Note

(1) 36% rate applies where 10% or more of the deceased person's net chargeable estate is left to charity.

Bridger av Svikting be, at we			
Nil rate bands			
6 April 1996-5 April 1997	up to £200,000	6 April 2003-5 April 2004	up to £255,000
6 April 1997-5 April 1998	up to £215,000	6 April 2004–5 April 2005	up to £263,000
6 April 1998-5 April 1999	up to £223,000	6 April 2005-5 April 2006	up to £275,000
6 April 1999-5 April 2000	up to £231,000	6 April 2006-5 April 2007	up to £285,000
6 April 2000-5 April 2001	up to £234,000	6 April 2007-5 April 2008	up to £300,000
6 April 2001-5 April 2002	up to £242,000	6 April 2008-5 April 2009	up to £312,000
6 April 2002–5 April 2003	up to £250,000	6 April 2009–5 April 2018	up to £325,000
Taper relief			
Death within 3 years of gift		Nil%	
Between 3 and 4 years		20%	
Between 4 and 5 years		40%	
Between 5 and 6 years		60%	
Between 6 and 7 years		80%	
Owiels expensesion malief			
Quick succession relief	41	100%	
Period between transfers less	tnan one year		
Between 1 and 2 years		80%	
Between 2 and 3 years		60%	
Between 3 and 4 years		40%	
Between 4 and 5 years		20%	

Lifetime exemptions

A1			(2,000
Annual exemption			£3,000
Small gifts			£250
Wedding gifts	_	Child	£5,000
	_	Grandchild or remoter issue or other	£2,500
		party to marriage	
	_	Other	£1,000

Chapter 1

VAT General Principles

In this chapter we will gain an understanding of the general principles of VAT.

VAT legislation and interpretation

[1.1] The Value Added Tax Act 1994 (VATA 1994) provides the framework of value added tax (VAT). However, much of the detail is to be found in statutory instruments, either in the form of Orders made by the Treasury or Regulations made by Her Majesty's Revenue and Customs (HMRC), who manage this tax.

European community legislation

[1.2] The overriding law on VAT throughout the European Community (EC) is in the EC Directives, notably Council Directive 2006/112/EC which recast the Articles of the 1st and 6th VAT Directives from 1 January 2007. The form and method of compliance is left to individual EC countries but, where any of the provisions are mandatory, EC law takes precedence if there are any inconsistencies with national law.

Interpretation of the law by HMRC

[1.3] HMRC issue explanatory notices on VAT, together with VAT notes, news releases and Briefs. These explain how they interpret the law. With certain exceptions, these are not part of the law and this should be borne in mind where this book indicates a notice or leaflet, etc. as source material.

If a taxable person disagrees with the interpretation, he has a right of appeal, in certain cases, to the First-tier Tax Tribunal.

General principles of VAT

[1.4] VAT is a tax on consumer expenditure and is collected on business transactions and imports. The basic principle is to charge VAT at each stage in the supply of goods and services (output tax). If the customer is registered for VAT and uses the supplies for business purposes, he will receive credit for this VAT (input tax). The broad effect is that businesses are not affected and VAT is actually borne by the final consumer.

Normally VAT registered businesses charge VAT on their sales at 20%. This is the standard rate of VAT.

The standard rate used to be 17.5% but this was increased to 20% from 4 January 2011. It should be noted that the old standard rate of 17.5% was temporarily reduced to 15% for the period starting on the 1 December 2008 until the 31 December 2009.

Illustration

Stage 1

Mr Wood owns a small forest in which he grows trees. He sells the timber commercially and is registered for VAT. Mr Wood sells £1,000 of timber to a local furniture maker. As Mr Wood is VAT registered, he must add VAT to his selling price. The standard rate of VAT is 20%. Mr Wood will provide an invoice as follows:

	£
Selling price	1,000
Add: VAT @ 20%	<u>200</u>
Consideration paid by furniture maker	1,200

The £200 of VAT charged by Mr Wood is "output tax" (being VAT charged on goods going "out").

Mr Wood will complete a VAT return and pay this output tax to HMRC.

The £200 of VAT paid by the furniture maker is "input tax" (being VAT incurred on goods coming "in").

Stage 2

The furniture maker uses the timber to make some chairs. He sells furniture commercially and is registered for VAT. The furniture maker sells the chairs to Chair World Ltd (a high street retailer) for £3,000.

As the furniture maker is VAT registered, he must add VAT to his selling price. The furniture maker will provide an invoice as follows:

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Selling price	3,000
Add: VAT @ 20%	600
Consideration paid by Chair World Ltd	3,600

The £600 of VAT charged by the furniture maker is "output tax".

The furniture maker will complete a VAT return and pay this output tax to HMRC.

However, as he incurred input tax when buying the timber from Mr Wood, he is allowed to credit the input tax incurred against the output tax he has collected.

The VAT return will therefore be as follows:

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Output tax collected	600
Input tax suffered	(200)
Payable to HMRC	400

Stage 3

Chair World Ltd sells chairs to Mr Smith. The company is registered for VAT.

Chair World Ltd sells the chairs for £8,000. As the company is VAT registered, it must add VAT to the selling price. Chair World Ltd will provide an invoice as follows:

	£
Selling price	8,000
Add: VAT @ 20%	1,600
Consideration paid by Mr Smith	9,600

The £1,600 of VAT charged by Chair World Ltd is "output tax".

Chair World Ltd will complete a VAT return and pay this output tax to HMRC.

However, as they incurred input tax when buying the chairs, credit can be claimed for the input tax incurred against the output tax collected.

The VAT return will therefore be as follows:

	£
Output tax collected	1,600
Input tax suffered	(600)
Payable to HMRC	1,000

Summary

The total VAT paid to HMRC in this chain of transactions is as follows:

	£
From Mr Wood	200
From furniture maker	400
From Chair World Ltd	1,000
Total collected by HMRC	1,600

The £1,600 is effectively the VAT paid by Mr Smith when he purchased the chairs. As Mr Smith is a member of the public and is not a VAT registered trader, he cannot reclaim this input tax.

This illustration shows how VAT cascades down a chain of transactions until it is ultimately suffered by a person who cannot reclaim (usually a member of the public).

The VAT fraction

[1.5] As we have said, the standard rate of VAT is 20%. In the above illustration of the sale of the chair to Mr Smith by Chair World Ltd (in stage 3), we took the selling price of £8,000 and added 20% VAT of £1,600 (£8,000 \times 20%) to give the consideration that Mr Smith paid of £9,600.

The £8,000 net selling price is VAT exclusive and this is 100% of the selling price. The consideration of £9,600 is VAT inclusive and therefore 100% net selling price + 20% VAT, being 120% of the selling price.

If we know the VAT inclusive price of £9,600, we could easily find out the VAT figure by dividing by 120 and times by 20, i.e.:

Consideration £9,600 × 20/120 = £1,600 VAT.

Instead of using 20/120 we can use the VAT fraction of 1/6 to give the same result, i.e.:

Consideration £9,600 \times 1/6 = £1,600 VAT.

By using the VAT fraction and understanding what VAT inclusive and exclusive means, we can easily calculate the VAT and inclusive/exclusive prices. Take £8,000 VAT exclusive (or net selling price), to find the VAT inclusive price either times by 6/5, or 120/100, or 1.2. All give the same VAT inclusive price of £9,600.

Output tax

[1.6] Output tax is the VAT due on taxable supplies and is the liability of the person making the supply, meaning the seller must pay over the VAT to HMRC.

Input tax

[1.7] A taxable person is entitled to reclaim input tax suffered on goods and services supplied to him, provided that the input tax relates to taxable business supplies made by him in the course of business.

Taxable supplies are those chargeable at the standard rate (20%), the reduced rate (5%) or the zero rate (0%).

Zero-rated supplies

[1.8] There are currently three main rates of VAT, a standard rate of 20%, a reduced rate of 5% and a zero rate. The effect of a supply being zero-rated is as follows:

- The amount of VAT on the supply is nil but it is still a taxable supply.
- As a taxable supply, it must be taken into account in determining whether registration is required.
- Input tax may be reclaimed subject to the same rules as for standard-rated supplies.
- Where a supply could be either zero-rated or exempt, zero-rating takes priority.

Exempt supplies

[1.9] Certain supplies are exempt from VAT. This means that no VAT is chargeable but, unlike zero-rated supplies, related input tax is not recoverable.

Where a person makes both taxable supplies and exempt supplies, he is partially exempt and may not be able to recover all his input tax. Special rules apply to work out how much input tax can be reclaimed.

Registration

[1.10] Where a person is in business and making taxable supplies, the value of these supplies is his "taxable turnover".

If, at the end of any month:

- taxable turnover in the previous 12 months has exceeded the "registration threshold" (currently £81,000), or
- there are reasonable grounds for believing that the value of taxable supplies in the next 30 days will exceed the threshold.

that person normally becomes a taxable person and must notify HMRC of his liability to register for VAT. There are financial penalties for failing to do so.

Where, however, only zero-rated supplies are made, HMRC have a discretion to exempt a person from registration.

Even if taxable turnover is below the specified limit, a person who makes taxable business supplies can request voluntary registration.

VAT registration will be covered in detail in the next chapter.

Returns and payment of VAT

[1.11] Every taxable person must submit a VAT return (VAT 100) declaring the output tax and input tax for each VAT period. A VAT period is normally three months but a one month period is also allowed, particularly where input tax is likely to exceed output tax on a regular basis.

For the majority, the VAT periods are quarterly and these prescribed accounting periods are staggered for administrative convenience and can be:

- For stagger group 1, the quarters ended 30 June, 30 September, 31 December and 31 March.
- For stagger group 2, the quarters ended 31 July, 31 October, 31 January and 30 April.
- For stagger group 3, the quarters ended 31 August, 30 November, the end of February and 31 May.

For each of those three stagger groups, the VAT year end will therefore be 31 March, 30 April or the 31 May as appropriate.

The VAT return must be submitted online to HMRC (together with any VAT due) no later than one month and seven days after the end of the period. All businesses must file VAT returns online and pay VAT electronically (subject to a few exemptions such as religious organisations where religious beliefs prevent them from using computers).

Certain large VAT payers must make monthly payments on account.