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United Kingdom VAT

A tax professional's essential guide to calculating, managing and applying VAT in the UK

AN INTRODUCTION TO UK VAT

VAT was introduced in the UK in 1973 when the country joined the European Economic Community.

It was initially designed to replace purchase tax and is now one of the world's oldest and most established VAT regimes.

Over the decades that followed, VAT in the UK closely followed the EU's VAT Directive and was subject to relatively few major amendments.

The British government last changed its standard VAT rate from 17.5% to 20% in 2011; a figure at which it remains today.

However, since the Brexit vote in 2016 and the UK's subsequent departure from the EU in 2021, there have been numerous changes to British VAT and the requirements placed on businesses trading in the country.

Nonetheless, VAT remains an important financial lever for the authorities. Indeed, VAT is the UK government's third-largest source of revenue - behind only income tax and national insurance - contributing more than £160 billion each year.

It is operated by HM Revenue and Customs (HMRC), which offers a range of publications on the administration of VAT in the UK.

Any business - whether it is based in the UK or not - may be liable for collecting and remitting VAT, so it is imperative to comply with the relevant regulations; which includes specific reporting obligations.

With the UK now out of the EU VAT regime, keeping your goods flowing and import taxes minimised is trickier than ever before.

VAT RATES

- 20% Standard rate
- 5% Reduced rate
- 0% Zero rate

Should you register?

Businesses based outside the UK will be required to register for VAT in the country if any of the following scenarios apply to their trading activities:

- Goods are imported into Europe via the UK
- Goods are bought and traded in the UK
- Goods are sold to UK consumers via the internet
- Goods are held on consignment in the UK
- Live events or exhibitions are held in the UK

Exemptions

- Insurance, finance and credit
- Fundraising events
- Subscriptions to membership bodies
- Selling/leasing of commercial property
- Education and training

What does BREXIT mean for VAT?

The UK left the EU on 31st January 2020, although under the Northern Ireland Protocol, Northern Ireland remains part of the single market.

This means that goods moving between Great Britain (GB) and Northern Ireland are treated as though they are imports/exports.

Meanwhile, goods that come from Northern Ireland into the EU are subject to 'Northern Ireland acqusition VAT'.

1. Distance sales of goods from GB to EU consumers are no longer subject to distance selling thresholds set by member states.
2. For movements of own goods from Great Britain to Northern Ireland, output VAT will need to be accounted for on the VAT return; this may also be reclaimed as input VAT.
3. Following the withdrawal of 'low value consignment relief', import VAT is no longer due at the border for most consignments valued below £135.

The Windsor Framework

In February 2023, the UK and the EU formed an agreement on a series of amendments to the Northern Ireland Protocol, known as the Windsor Framework.

The objective of the Windsor Framework was to smooth the flow of trade between Great Britain and Northern Ireland.

The Northern Ireland Protocol was originally formed as part of the Brexit Withdrawal Agreement and set out to prevent a harder border on the island of Ireland.

What's more, it stated that Northern Ireland must retain various EU customs, VAT and regulatory rules.

Following the implementation of the Northern Ireland Protocol, businesses in Northern Ireland faced a number of operational challenges and further negotiation was sought.

Under the Windsor Framework, the previous issues are overcome by:

1) Introducing new 'Green Lanes' that allow goods travelling from Great Britain that are set to remain in Northern Ireland to be transported with only minimal checks and paperwork.

2) Amending the wording of the Northern Ireland Protocol to ensure UK VAT and excise charges are applied not only in Great Britain, but also in Northern Ireland.

3) Implementing the 'Stormont Brake', designed to provide the Northern Ireland Assembly with the power to block new EU laws from applying to Northern Ireland.

The Windsor Framework is being implemented in a phased approach up to 2025.

MAKING TAX DIGITAL

Making Tax Digital was introduced in 2021 and is the UK's flagship digital taxation policy.

It is a key part of the government's Tax Administration Strategy and aims to reduce the tax gap by mandating businesses and individuals to:

1) Maintain digital tax records.
2) Use software that is compatible with Making Tax Digital.
3) Submit tax updates each quarter, bringing UK tax data closer to real time than ever before.

Making Tax Digital is part of HMRC's plans to digitalise the tax system and is designed to make it easier for businesses to get tax right, allow customers to integrate tax management with other major business software platforms and contribute to efficiency gains.

VAT returns

VAT returns can be filed on either a monthly or quarterly basis in the UK.

Monthly filing periods are typically on offer to companies that find themselves in a repayment position.

Any business that submits VAT returns on a quarterly basis and is liable to pay £2.3 million or more within 12 months will find itself automatically placed on the company under payments regime; meaning it will be required to make two pre-payments each quarter.

Companies operating under the payment on account regime are not afforded seven-day payment and submission extensions, meaning their VAT return deadline is the final day of the month following the end of the period.

Invoicing requirements

Any business that supplies standard-rated or reduced-rated goods or services in the UK must issue a VAT invoice.

There is no need to issue a VAT invoice if the buyer is not VAT registered or if the supplies in question are zero-rated.

When producing a VAT invoice, the following details must be included

1. A unique identification number
2. Time of supply
3. Date of issue
4. Supplier name, address and VAT number
5. Customer name and address
6. Description of goods and/or services
7. Quantity of goods and/or services, rate of VAT and amount of VAT payable
8. Gross total amount payable excluding VAT

DID YOU KNOW...

Gingerbread men decorated with chocolate that amounts to no more than two dots for eyes are not subject to VAT in the UK.

However, gingerbread men with more chocolate covering than this are deemed to be a luxury and standard-rate VAT of 20% must be applied to their sale.

Similarly, pre-made popcorn must have VAT applied to its sale, while popcorn to be made at home is not considered a luxury and is therefore zero-rated.

Biscuits are another sore point for manufacturers in the UK. Generally biscuits are zero-rated, but there's still plenty of room for debate. That's because biscuits covered in chocolate are standard-rated, while those filled with chocolate remain zero-rated, leading to numerous legal disputes to determine precise classifications of individual products.

INNOVATE TAX