

UK VAT guide

This guide is an overview of the UK's Value Added Tax ("VAT") system, focussed on how it affects foreign businesses trading with the UK. It is general in nature and unlikely to cover the specifics of your scenario. It should be read as such and not be construed as advice. For advice as to how your business is affected by UK VAT please contact a Kreston Global UK VAT specialist.



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What is the tax called	VAT – Value Added Tax
What is the tax authority	HM Revenue & Customs (HMRC)
What type of tax is it	Consumption based tax on consumers, on business transactions and imports
What is it due on	Taxable turnover – VAT is added to the value of supplies of goods and services where the 'place of supply' is the UK
What are the VAT rates	<p>Taxable: 20% – default (standard) rate 5% – reduced rate 0% – zero rate</p> <p>Exempt: 0% – Exemptions for specific services/goods</p> <hr/> <p>5% – reduced rate eg</p> <ul style="list-style-type: none"> • Domestic fuel and power • Some energy saving materials • Residential conversions/ renovation and alteration • Children's car seats <hr/> <p>0% – zero rate eg</p> <ul style="list-style-type: none"> • Exports • Most food but not catering • Children's clothes • Books • New homes and charitable buildings • Passenger transport <hr/> <p>Exempt from VAT eg</p> <ul style="list-style-type: none"> • Finance • Insurance • Real estate (subject to an Option to Tax for commercial properties and bare land supplies) • Health/welfare • Education by eligible bodies
What does a VAT number look like	GB 123 4567 89
Is there a registration limit	For UK established businesses – £85,000 For non-UK established businesses – NIL

When does a non-established entity need to register	If it imports into or trades goods in the UK or if the place of supply of services is deemed to be the UK.
When is the place of supply in the UK	<p>A supply that takes place in the UK.</p> <p>Also, special rules for services, no matter where the supplier belongs, such as:</p> <ul style="list-style-type: none"> • Land and property related • Digital, telecommunications and broadcasting • Services, including admissions, linked to physical performance, including artistic, cultural, educational, sporting, entertainment, exhibition and conferences/meetings • Restaurant and catering • B2C intermediary services • Hire of means of transport • Passenger and freight transport
Any special rules	Where goods with a consignment value of under £135 are located outside the UK at the point of sale to a consumer, a VAT registration is required and UK VAT on the sale must be declared. That is unless the goods are sold via a marketplace or to a VAT registered business in which case the marketplace (or business customer) is responsible for the declaration of VAT.
Does a non-established entity need a fiscal representative	Fiscal representation is not required in the UK and a pure agent can, if required, be appointed to file returns for a foreign business. However, HMRC may require a non-established business to appoint a representative in cases of poor compliance.
How often do VAT returns need to be submitted	Normally quarterly – can be monthly
Are penalties imposed for late registration	Yes – up to 20 years – the unpaid tax is due plus a % penalty, from 0% to 100% depending on how the error arose, if it has been brought to HMRC's attention voluntarily, how late the notification is and the cooperation of the taxpayer in resolving the issue with HMRC.
Are penalties imposed in other circumstances	<p>Yes – penalties are charged for:</p> <ul style="list-style-type: none"> • VAT return errors (up to 4 years old and between 0% and 100% of tax due depending on circumstances) and • late submission or payment (sliding scale depending on history).
Can VAT incurred by overseas businesses be recovered	Where a non-UK established or non-UK VAT registered entity incurs VAT in the UK whilst on business, such as in attending a conference, provided there is no registration requirement in the UK and the UK and other country concerned have reciprocal refund arrangements, HMRC will refund the VAT incurred, subject to precise rules and the (annual) time limits for submission of claims.
Can VAT be deducted	<p>VAT incurred on expenditure can be reclaimed where it is used in connection with 'taxable' sales, being at the standard rate of 20%, the reduced rate of 5% or the zero-rate of 0%.</p> <p>VAT on expenditure used in connection with exempt supplies cannot usually be reclaimed.</p>
Do I need to issue an invoice	Invoices must be raised except when supplying private persons. There are specific requirements for what is included on VAT invoices. Invoices may be raised in foreign currency but the VAT amount must be quoted in GBP.
Other	Northern Ireland is considered part of the UK for Services and part of the EU for goods – special rules apply.