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***LLEWELYN DAVIES***  
***CHARTERED ACCOUNTANTS***

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***SHOULD I BE REGISTERED FOR VAT?***



**Working as a team**

[www.llewelyndavies.co.uk](http://www.llewelyndavies.co.uk)

## 1. What is VAT?

Value Added Tax is a tax businesses charge when they supply their goods and services in the United Kingdom (UK) or Isle of Man.

It is also charged on goods, and some services, that are imported from places outside the European community (EC) and on goods coming into the UK from another EC member state.

The following are examples of business supplies:

- Selling new and used goods, including hire purchase;
- Renting and hiring goods;
- Business stock used for private reasons;
- Providing a service for example, hairdressing, decorating and so on;
- Charging an admission price to go into buildings;
- Making supplies through agents;
- Self-employed people providing supplies, for example, some salesmen and subcontractors.

## 2. What are taxable supplies and the different rates of VAT?

There are three rates of VAT:

- 20% - on most supplies of goods and services;
- 5% - on supplies of fuel and power used in the home and by charities. This came into effect on 1 September 1997 and includes electricity, gas (including cylinder gas), coal and other solid fuels, heating oils and supplies of heat and air conditionings;
- 0% - these are known as zero-rated supplies, which you do not need to charge, VAT on. Some examples are shown below:
  - Most food (but not meals in restaurants and cafes and hot take-away food and drink);
  - Books and newspapers;
  - Sales and long leases of new houses;
  - Young children's clothing and shoes;
  - Exporting goods out of the country;
  - Prescriptions and many aids for disabled people.

All goods and services which are VAT-rated at either 20%, 5% or 0% are called "taxable supplies", whether you are registered for VAT or not. You must charge VAT on your taxable supplies from the date you first need to be registered. The value of these supplies is called your "taxable turnover".

## 3. What are exempt supplies?

Exempt supplies are business supplies, which have no VAT, charged on them at either the standard or zero rate. Exempt supplies do not form part of your taxable turnover.

If the only services you supply are "exempt supplies" you can't normally be registered for VAT.

If you are registered for VAT and have some "exempt supplies" you may not be able to get all your input tax back. Input tax is the VAT you pay on what you spend for your business.

The following are examples of "exempt supplies":

- Selling, leasing and letting of land and buildings (but not letting of garages, parking spaces or hotel and holiday accommodation);
- Insurance;
- Betting, gambling and lotteries (but not takings from fruit machines);
- Providing credit;
- Certain education and training;
- The services of doctors and dentists;
- Certain services from undertakers.

## 4. Who has to be registered for VAT?

You, and not your business, are registered for VAT. Your registration covers all parts of your business.

You can register as a:

- Sole proprietor;
- Partnership;
- Limited company;
- Club or association;
- Charity.

## 5. How do I work out whether I have to be registered?

The current limits apply to anyone who has to be registered **on or after** 1 April 2013.

Normally, you only have to consider what taxable supplies (see paragraph 2) you have made within the last 12 months, unless you think your taxable supplies will be more than £79,000 in the next 30 days alone.

You must register if:

- (a) At the end of any month, the total value of the taxable supplies you have made **in the past 12 months or less** is more than £79,000; or
- (b) At any time you expect that the value of your taxable supplies will be more than £79,000 **in the next 30 days alone**.

You must fill in Form VAT 1 and send it to Customs & Excise within 30 days from the end of the month when your taxable supplies reached £79,000. Or you must send in the form within 30 days of the date you first expected your taxable supplies to go over £79,000 in the next 30 days alone.

The date you register will depend on whether you need to register under either (a) or (b) above. Under (a) the date you register is the first day of the second month after your taxable supplies rose above £79,000. Under (b) the date you register will be the date when you first thought your taxable turnover would go over £79,000 in the next 30 days alone.

## 6. Optional Flat Rate Scheme

This scheme came into effect on 25 April 2002.

a. Businesses can opt to join the new scheme if they meet the entry requirements of:

- A tax exclusive annual taxable turnover of up to £150,000; and
- A tax exclusive annual total turnover, including the value of exempt and/or other non-taxable income, of up to £191,500.

b. The flat rate scheme is a simplification measure, which enables businesses to calculate their net tax due simply by applying a flat rate percentage to their tax inclusive turnover, (the total turnover generated, including all reduced, zero rate and exempt income). The flat rate percentage will depend upon the trade sector into which a business falls for the purposes of the scheme.

We hope the contents are a useful summary. We have taken every care in the preparation of the leaflet, however we can accept no responsibility for any loss occasioned by any person acting or refraining from action as a result of this material. We prepare VAT returns for many of our clients and provide assistance with registration and deregistration. If you need any further information please contact one of our Offices.

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