

VALUE ADDED TAX OVERVIEW

General

Most English taxes are charged on a United Kingdom wide basis. This is unlike most other types of laws where there was separate legislation in each of England and Wales, Scotland and Northern Ireland.

The following relates to the VAT obligations of businesses based in the UK. It is, of necessity, an overview. The VAT rules can be complicated and individual circumstances should always be considered.

UK VAT is broadly similar to Irish VAT. This is because VAT is an European Union based tax and derives from European Union rules. Accordingly a lot of the principles are similar throughout the European Union. However, there are significant differences not least in rates, turnover, registration requirements and the details of certain schemes and rules.

VAT generally applies to the supply of goods or services in the course of a business. A business activity arises where goods or services are supplied on an ongoing basis in exchange for payment. If goods are purchased both for business and non business purposes VAT can be recovered only to the extent that they are used for business purposes.

VAT applies to the sale or transfer of most goods and services. Once a businesses' turnover exceeds a certain level, it is necessary to register for VAT. Once this happens a business must charge VAT on all its sales. Correspondingly, it is entitled to a credit on the VAT on all of its purchases, relating to the sales.

Exemption from VAT applies to certain goods and services, including in particular, insurance, certain doctors and dentists, certain types of education and training and financial services.

Because VAT taxes the increase in value, VAT on purchases is deductible. "Inputs" or purchases must relate to the sale. The net VAT only is payable. VAT may be reclaimable if the inputs exceed the outputs in a VAT period.

Reclaim of VAT on Purchases

It is usually possible for businesses to reclaim VAT paid on goods purchased for a business subject to VAT. Certain business or sales may supply exempt goods or services or may sell goods subject to VAT.

It is only possible to reclaim input VAT on purchases to the extent and proportion that they are used for the supply of goods and services subject to VAT. The implication of a supply being exempt is that the corresponding input VAT (VAT on purchases) is not reclaimable.

It is generally possible to reclaim VAT on purchases (known as input tax) which relate to goods and services which are subject to VAT. It is not possible to reclaim VAT on purchases that are not for business purposes or relate to the supply of goods and services that are exempt.

Apportionment arises where the same goods and services are exempt from VAT and some are not in relation to the reclaim of VAT on purchases. Such businesses are referred to as partly exempt businesses. There are a number of methods of apportioning the input purchases to exempt and non-exempt purchases. There is a standard method and a special method for which approval must be obtained in advance.

It is possible to reclaim VAT on goods and services supplied prior to registration under certain limited conditions. In the case of goods they must be supplied to the business

more than three years before registration. Records must show the quantity and date they were obtained. In the case of services they must be supplied to the business not more than six months before registration.

International VAT

The VAT rules on importing into and exporting from the UK are similar to those in Ireland because of the European Union background to the rules. There are different rules for imports and exports from the UK to places inside and places outside the European Union, although the net effect may appear to be similar.

VAT is payable on imports from outside the European Union. Goods imported must be declared to HMRC and VAT paid or accounted for. It may be possible to defer paying VAT on goods and services from outside the EU by registering with HMRC and showing that the business is entitled to reclaim VAT. The details must be entered in the importer's VAT return form and VAT must be accounted for. It may be possible to reclaim the VAT due so that there may be a netting off of VAT on purchases/inputs for business.

The supply of goods for export outside the EU or for dispatch to VAT registered customers in other EU countries is zero rated. The total of goods exported to destinations outside the EU must be specifically identified in the VAT return forms.

The obligations in relation to VAT on goods acquired from inside the EU are subject to different rules. If a business sells goods to VAT registered customers in other countries in the EU, it is necessary to record details in EC Sales Lists in addition to the usual VAT returns. This may be submitted by the internet. Records of commercial invoices must be kept. It is necessary to return an Intrastat Declaration if EU imports exceed £260,000 per year.

The UK VAT rate applies in the case of sales directly to non VAT registered businesses in the EU. Correspondingly a sale by an Irish established business to a consumer or non registered VAT business abroad would charge the Irish standard rates.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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