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Guidance

## VAT guide (VAT Notice 700)

The guide to VAT rules and procedures.

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## 1. Overview

### 1.1 What this notice is about

This notice is the main reference guide to VAT, it provides:

- a guide to all the main VAT rules and procedures
- help with the problems faced by business
- references to more specialised publications

This notice has been revised to reflect the UK has left the EU and the end of the transition period. Not all of the information here will apply to your business, so do not try to read it all the way through.

### 1.2 Other helpful notices

#### 1.2.1 Introductory information

You may find it helpful to read these simple introductory notices before you use this guide:

- how to fill in and submit your VAT Return (VAT Notice 700/12) (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>) - how to fill in and submit your VAT Return
- record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>) - keeping VAT records

#### 1.2.2 Retail schemes

If you make retail sales or provide services to the public, there are a number of special retail schemes which you may use to work out the VAT on your supplies.

You should read Retail schemes (VAT Notice 727) (<https://www.gov.uk/guidance/retail-schemes-notice-727>) and the associated notices which will tell you more about the individual schemes. The schemes are designed to suit different types of business, and this notice will help you decide.

#### 1.2.3 Business between Northern Ireland and EU

If you're involved in either buying or selling goods between Northern Ireland and EU you should read The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>).

### 1.3 How to get free information and help

Some features of VAT arise less frequently or only affect certain types of business. You will find detailed guidance on these in other, more specialised notices.

You can get VAT Notes online. They're usually issued quarterly with VAT Returns and provides brief topical notes about VAT and details of new and revised VAT publications.

If you cannot find the answer to your query in these publications, you can contact the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

### 1.4 The VAT general enquiries helpline

#### 1.4.1 What the VAT general enquiries helpline deals with

The VAT general enquiries helpline deals with all general phone enquiries from both businesses and the public about VAT.

For example, you can call the service if you have a question about:

- HMRC rules and procedures
- rates of VAT chargeable on particular goods
- requests for publications or forms where they're available in a printed format
- requests for duplicate returns for businesses that still make paper return submissions

Businesses with a dedicated team in HMRC can still contact that team for information and advice.

#### 1.4.2 What the VAT general enquiries helpline does not deal with

The service cannot deal with any questions about case specific transactions.

For example.

<b>If you have a question about</b>	<b>then you should contact</b>
how to clear an existing debt	the Debt Management Unit that is handling your case
the progress of a VAT registration or the amendment or cancellation of a VAT registration	the VAT Registration Service ( <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes</a> ) - see section 26 for guidance on changes in circumstances that may require cancellation or amendment of a VAT registration
the progress of a specific import entry	customs at the port or airport of importation

If you have a question about	then you should contact
the progress of a request to use one of HMRC's schemes	the office you sent the application to or, if you applied online, the VAT Online Services Helpdesk
matters arising from a visit by one of HMRC's officers	the officer direct

## 1.5 Getting advice on VAT matters

To help HMRC to give you the best service, always give the full facts.

Most enquiries can be dealt with by calling the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>). For detailed questions or case specific transactions you should write to or email HMRC. If you wish to write or email with a VAT enquiry you can use the post address or email form.

The VAT Written Enquiries Team does not provide rulings or opinions. To get HMRC's view of a transaction, apply for a non-statutory clearance. There are a number of conditions to meet before HMRC will issue its view of a transaction (see the checklist in Annex D of the non-statutory clearance service guidance (<https://www.gov.uk/government/publications/non-statutory-clearance-service-guidance-annexes>)).

### Tax accountancy profession

You can also get help and advice about how to keep your VAT affairs in order from members of the tax accountancy profession. But, there's no requirement to employ an accountant and if you choose to do so, responsibility for the accuracy of your VAT affairs remains with you, the taxable person.

## 1.6 Learning about VAT

There are several options if you want to find out more about how VAT works. You can choose from:

- guidance on setting up a business (<https://www.gov.uk/browse/business/setting-up>)
- short YouTube videos (<https://www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos>) on specific topics
- webinars, e-learning, emails and videos on VAT for businesses and agents (<https://www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos>) thinking about registering, or recently registered, for VAT
- signing up for business emails (<https://public-online.hmrc.gov.uk/business-emails/subscription>) from HMRC to help you with VAT
- guidance on the GOV.UK VAT pages (<https://www.gov.uk/business-tax/vat>)
- calling the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>)

HMRC is committed to providing newly-registered businesses with the help and support they need in ways they find convenient, accessible and understandable.

## 1.7 Updates

From time to time, the VAT rules change or are rewritten to make the guidance clearer. This is done through a revised edition of the publication or an update for the existing notice. All revised editions and updates are published on the VAT pages (<https://www.gov.uk/business-tax/vat>) and in the next available editions of VAT Notes (<https://www.gov.uk/government/collections/vat-notes>).

It's important that you keep yourself up to date by noting these changes. Otherwise you may find that you are not accounting for VAT properly.

## 2. Administration of VAT

### 2.1 VAT visits, tax avoidance and the law

This section explains:

- the purpose of visits that you'll receive from VAT officers and what you can expect
- HMRC's approach to tax avoidance
- the law
- what HMRC can do in cases of misunderstanding, misdirection or departmental error
- your rights as a taxpayer and how to complain

Other administrative aspects are dealt with elsewhere in the notice:

Guidance on	is in
registration	section 6 and section 26
VAT Returns and payment of VAT	section 20 and section 21
penalties and interest charges	section 27
appeals	section 28

### 2.2 Visits by VAT officers

From time to time you'll be visited at your principal place of business by a VAT officer. The officer will examine your business records, methods and premises and give you guidance. The reason for this is to make sure that the correct tax is accounted for at the right time. HMRC wants you to pay no more and no less than is due.

#### 2.2.1 When you may be visited

This will depend on the size and complexity of your business and your past compliance with legislation. Businesses which send in late or incorrect declarations and payments are visited more often. It's therefore in your interest to make sure that your declarations are correct from the outset.

Before the visit HMRC will agree a mutually convenient appointment date and time. On occasion a VAT officer will call without an appointment. One reason for this may be to see the day to day operation of the business.

## 2.2.2 Visit length

Officers aim to carry out their duties with as little inconvenience to you as possible. For a small business, a visit may only take a few hours, for a large or complex business it can last 2 or more days.

## 2.2.3 What happens during a visit

During the visit the VAT officer will:

- discuss with you the various aspects of your business
- give an indication of the length of the visit
- examine the records of the business
- advise you of overpayments as well as underpayments

At the end of the visit the officer will:

- review the work performed
- discuss any concerns arising
- agree what is to be done in the future

Where an error is found, the officer will:

- describe how the adjustment will be made
- agree the adjustment whenever possible
- tell you that you have the right to a review of their decision by an officer not previously involved in the matter or to appeal to an independent tribunal - if you opt for a review you can still appeal to the tribunal after the review has finished if you're unhappy with the outcome

There are a number of things that you can do to help the visit go smoothly. These include:

- advising HMRC early of the reasons for any significant changes in the tax or duties declared by you - you should do this by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>)
- keeping your records and payments up to date
- providing HMRC with any information and explanations requested
- asking if you're unsure of any matter connected with the tax - HMRC will not normally have time to look at all aspects of your records and business, so you cannot assume that you are accounting for the tax or duty correctly on everything just because no errors are found
- helping HMRC to understand your business and records
- replying to enquiries within the specified time
- quoting your VAT number when you contact HMRC

## 2.3 Tax avoidance

Tax avoidance is the use of contrived arrangements or structures to achieve a tax advantage - an increase in tax recovery, a reduction in the tax due or a tax deferral - contrary to the purpose and spirit of the legislation. Tax avoidance puts at risk government revenues. It can also give a business

an unfair advantage over others and threaten tax simplification measures. HMRC has to take action to counter this and will continue to do so. That action includes the use of litigation, or the introduction of new legislation.

## **2.4 VAT law**

VAT law in the UK is governed mainly by the Value Added Tax Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/contents>) as amended by subsequent Finance Acts. But there are many detailed rules in Statutory Instruments. These are either orders made by the Treasury or regulations made by HMRC. You can get copies of the Act and Statutory Instruments from the Stationery Office (<http://www.tso.co.uk/>) or online from Legislation.gov.uk (<http://www.legislation.gov.uk/>).

Generally speaking, this notice and the other VAT notices explain how HMRC interprets the VAT law. But, sometimes the law says that the detailed rules on a particular matter will be set out in a notice or leaflet published by HMRC rather than in a Statutory Instrument. When this is done, that part of the notice or leaflet has legal force, and that fact will be clearly shown at the relevant point in the publication.

## **2.5 When you can rely on advice from HMRC**

HMRC aims to provide information and advice that will give certainty to customers concerning the tax consequences of their transactions, their obligations, liabilities and entitlements.

To find out when you can rely on that information or advice, see the guide *When you can rely on information or advice provided by HMRC* (<https://www.gov.uk/guidance/when-you-can-rely-on-information-or-advice-provided-by-hm-revenue-and-customs>).

## **2.6 Extra-statutory concessions**

In certain circumstances where remission or repayment of VAT is not provided for by law, HMRC may allow relief on an extra-statutory basis. The use of a concession may be restricted, for example, if it's used for the purpose of tax avoidance (see paragraph 2.3).

For more information and a list of these concessions see *VAT Notice 48: extra statutory concessions* (<https://www.gov.uk/government/publications/vat-notice-48-extra-statutory-concessions>).

## **2.7 Interest in cases of departmental error**

You can claim interest where, as a result of an error on HMRC's part you:

- have paid too much VAT
- have underclaimed VAT
- were prevented from recovering VAT at the proper time

You can claim for the period of time during which you have not been able to use your money.

You should make your claim by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>), who will consider each case on its merits. Businesses with a nominated contact in HMRC should write directly to them.

## **2.8 Your rights as a taxpayer**

As a taxpayer, you have important rights and entitlements.

It includes standards of service which specifically relate to HMRC's administration of:

- VAT
- excise and inland customs
- the import and export of freight

Your co-operation in all aspects of the tax collection process is appreciated.

Under the Freedom of Information Act you're entitled to see certain information held by HMRC. For more information, see [How to make a freedom of information \(FOI\) request \(https://www.gov.uk/make-a-freedom-of-information-request/the-freedom-of-information-act\)](https://www.gov.uk/make-a-freedom-of-information-request/the-freedom-of-information-act).

Under the Open Government Code of Practice on Access to Government Information you're entitled to see certain information held by HMRC. You can make an FOI (<https://www.gov.uk/make-a-freedom-of-information-request>) request to access this information.

## 2.9 Complaints

Although HMRC's aim is always to provide a high standard of service, sometimes things may go wrong. If they do, there are procedures for handling complaints fairly and speedily.

Whenever possible, you should try to resolve your complaint on the spot with the VAT officer, but if you're unable to do so you should follow HMRC's complaints procedure (<https://www.gov.uk/complain-to-hm-revenue-and-customs>).

## 3. Introduction and liability to VAT

### 3.1 Introduction to VAT

The basic principles of VAT are covered in:

- section 3 - introduction to VAT and information about VAT liability and rates of tax
- section 4 - how VAT works and some of the mechanics of VAT
- section 5 - the basic rules on imports and exports. It also covers rules on Northern Ireland and EU supplies, and Great Britain and Northern Ireland supplies.
- section 6 - registration and when you might need to register

### 3.2 What VAT is

VAT is a tax on consumer expenditure. It's collected on business transactions, imports and acquisitions.

Most business transactions involve supplies of goods or services. VAT is payable if they're supplies made:

- in the UK or the Isle of Man
- by a taxable person
- in the course or furtherance of business
- that are not specifically exempted or zero-rated

Supplies which are made in the UK or the Isle of Man and which are not exempt are called taxable supplies.



A taxable person is an individual, firm, company and so on who is, or is required to be, registered for VAT. A person who makes taxable supplies above certain value limits is required to be registered.

A person who makes taxable supplies below these limits can be registered in the UK on a voluntary basis if they wish, in order, for example, to recover VAT incurred in relation to these taxable supplies.

In addition, a person who is not registered for VAT in the UK but acquires goods from an EU member state into Northern Ireland, or makes distance sales in Northern Ireland from EU, above certain value limits may be required to register for VAT in the UK (and such persons may register voluntarily if their acquisitions or distance sales are below these limits).

There is more about these matters in section 6.

Supplies are outside the scope of UK VAT if any of the following apply:

- made by someone who is not a taxable person
- made outside the UK and the Isle of Man (see paragraph 4.8.3 for special place of supply rules for certain international services)
- not made in the course or furtherance of business

### 3.3 VAT rates

You can check the current VAT rates (<https://www.gov.uk/vat-rates>) for goods and services.

#### 3.3.1 Historic VAT rates in the UK

VAT was introduced into the UK on 1 April 1973. The zero rate has existed throughout that time. There's been changes to the standard and reduced rates, plus a briefly introduced higher rate, and these are:

##### Standard rate

Date	Amount
1 April 1973	10%
29 July 1974	8%
18 June 1979	15% (covers all previously standard and higher-rated supplies)
1 April 1991	17.5%
1 December 2008	15%
1 January 2010	17.5%
4 January 2011	20%

##### Reduced rate

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Date	Amount
1 April 1994	8% (covers supplies of fuel and power)
1 September 1997	5% (extended to cover other supplies, with later other subsequent extensions)

### Higher rate

Date	Amount
18 November 1974	25% (covers petrol but not Derv)
1 May 1975	Extended (covers domestic electrical appliances, radios, TVs, hi-fis, pleasure boats, aircraft, towing caravans, photographic equipment, furs and jewellery)
12 April 1976	12.5%
18 June 1979	Abolished (standard rate increased from 8% to 15% to cover all previously standard and higher-rated goods)

## 3.4 Reduced-rated supplies

Some supplies of goods and services are charged at the reduced rate.

Reduced-rated supplies are taxable, and include the right of the person making the supply to recover the VAT on their own business expenditure (subject to certain restrictions - see paragraph 4.6).

For a full list of reduced-rated supplies, see paragraph 29.3.

## 3.5 Zero-rated supplies

VAT is not payable on zero-rated supplies, and an invoice for a zero-rated supply will not constitute a VAT invoice (paragraph 15.10 explains why this is important for tax point purposes).

But, zero-rated supplies are treated as taxable supplies in all other respects, including the right of the person making the supply to recover the VAT on their own business expenditure (subject to certain restrictions - see paragraph 4.6).

For a full list of zero-rated supplies, see paragraph 29.2.

## 3.6 Exempt supplies

Some supplies are exempt from VAT, which means that no tax is payable - but, equally, the person making the supply cannot normally recover any of the VAT on their own expenses.

But, it's possible to choose to standard rate some supplies of property which would otherwise be exempt, by opting to tax, whereby the supplies you make of an interest in land or buildings, or both, will, in most cases, become taxable (see Opting to tax land and buildings (VAT Notice 742A)

(<https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a>)).

For a full list of exempt supplies, see paragraph 29.4.

### **3.7 Further information on liability and rates of VAT**

Section 29 tells you about the areas of business where some supplies may be exempt, reduced-rated or zero-rated. It also lists the notices which tell you more about this.

If you have read section 29 and you think that any of your supplies might be zero-rated, reduced-rated or exempt, you should read the appropriate notice referred to in section 29.

If the rate of tax or the liability of something you supply changes, you should read section 30.

## **4. The basic rules for VAT**

### **4.1 How VAT works**

If you make taxable supplies (standard-rated, reduced-rated or zero-rated), you have to account to HMRC for the VAT due. This is your output tax.

You'll normally charge the VAT to your customers. If your customers are registered for VAT and the supplies are for use in their business, the VAT is their input tax. In the same way, VAT charged to you on your business purchases is your input tax.

As a registered person, you can reclaim from HMRC as much of the VAT on your purchases and imports, as relates to the standard-rated, reduced-rated and zero-rated supplies you make. In principle, you cannot reclaim VAT which relates to any non-business activity or to any exempt supplies you make.

For more information see the Businesses and charging VAT guide (<https://www.gov.uk/vat-businesses>).

### **4.2 How to account for VAT on your supplies**

At predetermined intervals you pay HMRC the excess of your output tax over the VAT you can reclaim as input tax. But, if the input tax you can reclaim is more than your output tax, you can reclaim the difference from HMRC.

For more information see sections 20 and 21 of this notice.

### **4.3 VAT relief if a customer has not paid you**

If you make taxable supplies of goods or services to a customer for which you are not paid, you may be able to reclaim relief from VAT on the bad debts. You can find out more about this in Relief from VAT on bad debts (VAT Notice 700/18) (<https://www.gov.uk/guidance/relief-from-vat-on-bad-debts-notice-70018>).

### **4.4 Supplies of goods**

You supply goods if you pass the exclusive ownership of moveable items to another person.

You also supply goods if you:

- transfer them under an agreement such as a hire-purchase agreement - but not if you transfer such an agreement
- provide water or any form of power, heat, refrigeration or ventilation but not if you hire out equipment which does this - that is a supply of services (see Fuel and power (VAT Notice 701/19) (<https://www.gov.uk/guidance/vat-on-fuel-and-power-notice-70119>) and VAT Notice 701/16: water and sewerage services (<https://www.gov.uk/government/publications/vat-notice-70116-water-and-sewerage-services>))
- supply a major interest in land, broadly speaking, the freehold, or in Scotland the dominium utile, or a lease exceeding 21 years (see Land and property (VAT Notice 742)) (<https://www.gov.uk/guidance/vat-on-land-and-property-notice-742>) and Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>))
- transfer goods permanently out of the business for your private use

You do not make a supply if you provide goods (such as overalls or tools) to employees solely for the purpose of their employment and make no charge.

## 4.5 Supplies of services

You supply services if you do something, other than supplying goods, for a consideration. A consideration is any form of payment in money or in kind, including anything which is itself a supply (see paragraph 7.2).

You also supply services if you:

- lend goods to someone for use outside your business
- hire goods to someone
- produce goods from someone else's materials
- use goods owned by the business outside the business
- agree, for a consideration, to refrain from doing something
- agree to grant, assign or surrender a right for a consideration

If you supply services, you should read Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## 4.6 Business and non-business

### 4.6.1 Introduction

It's very important to understand the difference between business and non-business activities:

- you must account for VAT on all the taxable supplies you make by way of business, and you can treat as input tax VAT charged on goods and services which you get for your business (see section 10)
- if you also carry out non-business activities, it could affect the amount of VAT you can treat as input tax - VAT charged on goods and services which you do not get for your business is not input tax and you cannot reclaim it

If, after reading the following sub-paragraphs, you need more detailed guidance about business and non-business, see the VAT Business/Non-Business Manual (<https://www.gov.uk/hmrc-internal-manuals/vat-business-non-business>).

#### **4.6.2 Meaning of the term 'business'**

In VAT terms, business means any continuing activity which is mainly concerned with making supplies to other persons for a consideration (see paragraph 4.5). The activity must have a degree of frequency and scale and be continued over a period of time. Isolated transactions are not normally business for VAT purposes.

It includes:

- the way in which self-employed people carrying on any trade, vocation or profession, as well as companies, earn an income
- the provision of membership benefits by clubs, associations and similar bodies in return for a subscription or other consideration
- admission to premises for a charge

It may also include:

- the activities of clubs and other recreational bodies
- some of the activities of charities and non-profit making bodies

But, even if your activities have some or all the characteristics of a business, they are not business if they're essentially a recreation or hobby and the making of taxable supplies is only incidental to this.

#### **4.6.3 Non-business**

If you have any non-business activities, you will not be able to reclaim all the VAT you're charged on your purchases. This is because the VAT charged on goods and services used for non-business purposes is not input tax and cannot be reclaimed.

#### **4.6.4 Examples of non-business activities**

Purely private or personal activities are non-business. Many charities, philanthropic and voluntary bodies and other non-profit making organisations have non-business activities. For example, these may all be non-business activities:

- providing free services or information
- maintaining museums, parks or historic sites (unless there's an admission or other charge)
- publicising religious or political views

An activity that's carried out mainly as a hobby, such as stamp collecting, is not a business. But, if you start to sell items you collect, or have made, on a regular and continuing basis, then your hobby could become a business for VAT purposes.

If you want to know whether this affects you, see paragraph 4.6.5 and then, if needed, contact HMRC (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

#### **4.6.5 Some particular situations**

#### (a) Grants or donations

Non-business activities are often financed largely from grants or donations. As long as those making the grants or donations receive no direct benefit in return, this income is not the consideration for any supply and is outside the scope of VAT.

#### (b) Activities are mainly non-business

A body whose main activities are non-business may still have some activities which count as business for VAT purposes, such as selling goods to raise funds, running a staff canteen or charging admission fees. If the taxable turnover from these activities is over the registration limits, the body should be registered for VAT.

#### (c) Charities

How VAT affects charities (VAT Notice 701/1) (<https://www.gov.uk/guidance/how-vat-affects-charities-notice-7011>) gives more information on non-business activities for such bodies.

VAT Refund Scheme for charities (VAT Notice 1001) (<https://www.gov.uk/guidance/vat-refund-scheme-for-charities-notice-1001>) gives more information on a VAT refund scheme in relation to the non-business activities of palliative care charities, air ambulance charities, search and rescue charities and medical courier charities.

#### (d) Local authorities and similar bodies

Special rules apply if you're a local authority or similar body covered by section 33 of the Value Added Tax Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/contents>) and you have non-business activities. For more information see Local authorities and similar bodies (VAT Notice 749) (<https://www.gov.uk/guidance/local-authorities-and-similar-bodies-notice-749>).

### 4.6.6 If you're involved in both business and non-business activity

<b>If you're charged VAT on goods and services which you get for</b>	<b>then you</b>
your business	can treat this as input tax (see section 10)
your non-business activity	cannot treat this as input tax (see paragraph 4.6.3)
both business and non-business activity	must apportion the VAT (see section 32)

## 4.7 The UK, Isle of Man and the Channel Islands

### 4.7.1 UK

The UK is made up of Great Britain, Northern Ireland and the territorial waters. It does not include the Channel Islands or the Isle of Man.

But, for VAT purposes the Isle of Man is treated as part of the UK. If you have customers or suppliers in the Isle of Man, the VAT rules are the same as if they were in the UK. Goods sent from Great Britain to the Isle of Man or vice versa do not count as imports or exports for VAT purposes.

## 4.7.2 Isle of Man

VAT is chargeable in the Isle of Man under Manx law which generally matches UK legislation. References in this notice to the UK also apply to the Isle of Man except for:

- accommodation in hotels and similar establishments in the Isle of Man, including the provision of holiday accommodation and the letting of camping sites, where the VAT rate is 5%
- repairs and refurbishments to domestic property situated in the Isle of Man, where the VAT rate is 5%

## 4.7.3 Channel Islands

There's no VAT in the Channel Islands. Goods passing between the Channel Islands and the UK or the Isle of Man are imported or exported for VAT purposes. See section 5.

## 4.8 Place of supply

### 4.8.1 Introduction

To be within the UK VAT system a supply must be made in the UK. Supplies made outside the UK are outside the scope of UK VAT. Separate rules apply for working out the place of supply for goods and services. These are set out in paragraph 4.8.2 and paragraph 4.8.3.

### 4.8.2 Goods

<b>If your supply involves</b>	<b>then your supply takes place</b>
goods located in the UK when supplied	in the UK
goods located outside the UK when supplied	outside the UK
goods you install or assemble in the Northern Ireland for more information see The single market (VAT Notice 725) ( <a href="https://www.gov.uk/guidance/vat-and-the-single-market-notice-725">https://www.gov.uk/guidance/vat-and-the-single-market-notice-725</a> )	in Northern Ireland
goods you install or assemble outside the UK	outside the UK
goods you supply from Northern Ireland to an EU member state under distance selling arrangements, where the value of your supplies in a calendar year is below the distance selling threshold set by that member state for more information on distance selling see section 6 of VAT Notice 700/1: should I be registered for VAT? ( <a href="https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling">https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling</a> )	in the UK

If your supply involves	then your supply takes place
goods you supply from Northern Ireland to an EU member state under distance selling arrangements, where the value of your supplies in a calendar year is above the distance selling threshold set by that member state for more information on distance selling see section 6 of Who should register for VAT (VAT Notice 700/1) ( <a href="https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling">https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling</a> )	in the EU member state to which the goods were delivered
the importation of goods by you, or under your directions, from outside the UK	in the UK
the importation of goods from outside the UK by your customer	outside the UK
the removal of goods from the UK for export outside the UK	in the UK
the removal of goods to Northern Ireland from an EU member state, outside the distance selling arrangements for more information on distance selling see section 6 of Who should register for VAT (VAT Notice 700/1) ( <a href="https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling">https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat/vat-notice-7001-should-i-be-registered-for-vat#distance-selling</a> )	in the member state from which the goods were removed

Where supplies take place in the UK, the supplier may be liable to register here and account for VAT on their supplies. No UK VAT would be chargeable on supplies that take place outside the UK.

There's more information about the place of supply of goods in the VAT notices referred to in the table and also in the following guides Exports, dispatches, supplying goods abroad and charging VAT (<https://www.gov.uk/guidance/vat-exports-dispatches-and-supplying-goods-abroad>) and Paying VAT on imports, acquisitions and purchases from abroad (<https://www.gov.uk/guidance/vat-imports-acquisitions-and-purchases-from-abroad>).

If you still cannot find the answer to your question and you need more help contact HMRC (<https://www.gov.uk/contact-hmrc>).

### 4.8.3 Services

There are 2 general rules for determining the place of supply of services, one for business to business (B2B) and one for business to consumer (B2C).

The B2B general rule for supplies of services is that the supply is made where the customer belongs.

The B2C general rule for supplies of services is that the supply is made where the supplier belongs.

There are also special place of supply rules for certain services. For more information see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

If you buy from a third party travel, hotel, holiday and certain other supplies of a kind enjoyed by travellers, and resell them as principal, or as an agent acting in its own name, there are different place of supply rules. For more information see Tour Operators Margin Scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>).



#### **4.8.4 Supplying digital services to consumers and the VAT Mini One Stop Shop (VAT.MOSS)**

If you're supplying digital services (broadcasting, telecommunications and e-services) to consumers in the EU then the place of taxation of these digital services is determined by the location of the consumer. VAT is therefore chargeable in the EU member state where the consumer belongs.

In order to account for VAT on these sales you can either:

- register for VAT in every EU member state where VAT is due and submit VAT Returns and payments in each of those states
- use the VAT.MOSS system in an EU Member State

If you use VAT.MOSS, you can register once for VAT for all B2C supplies of digital services you make in the EU. You submit one VAT.MOSS return and payment for these supplies. Use the European Commission website ([https://europa.eu/youreurope/business/taxation/vat/vat-digital-services-moss-scheme/index\\_en.htm](https://europa.eu/youreurope/business/taxation/vat/vat-digital-services-moss-scheme/index_en.htm)) to:

- check whether you should register for the Union or Non-Union VAT.MOSS
- find out who to contact to register for VAT.MOSS in an EU member state

For more information see (Pay VAT when you sell digital services to EU consumers from 1 January 2021)

### **5. VAT imports and exports. Movement of goods between Northern Ireland and EU, and Great Britain and Northern Ireland**

#### **5.1 Overview**

VAT is not only a tax on supplies. It's also a tax on the importation or acquisition of most goods - and of some services - received from outside the UK.

#### **5.2 Imported goods**

When goods are imported into the UK from outside the UK, VAT is normally due at the same rate as on a supply of those goods in the UK. From 1 January 2021, if your business is registered for VAT in the UK, you'll be able to account for import VAT on your VAT Return for goods you import into:

- Great Britain (England, Scotland and Wales) from anywhere outside the UK
- Northern Ireland from outside the UK and EU

See para 19.2.4 Account for import VAT on your VAT Return (also called postponed VAT accounting) for more information. Non-UK VAT registered traders cannot use postponed VAT accounting (PVA) and have the same options available to report and pay import VAT as they do for customs duties. If you are not using PVA you must pay VAT when you import the goods or, if you or your agent is approved for duty deferment, you can defer payment with any duty.

If you import goods, you should read Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>) and How to use your duty deferment account (<https://www.gov.uk/guidance/how-to-use-your-duty-deferment-account>).

#### **5.3 Warehoused goods**

Similar arrangements to those above apply if you remove goods from an approved warehouse.

You should read:

- Receive goods into and remove goods from an excise warehouse (Excise Notice 197) (<https://www.gov.uk/government/publications/excise-notice-197-receipt-into-and-removal-from-an-excise-warehouse-of-excise-goods>)
- Motor and heating fuels general information and accounting for Excise Duty and VAT (Excise Notice 179) (<https://www.gov.uk/government/publications/excise-notice-179-motor-and-heating-fuels-general-information-and-accounting-for-excise-duty-and-vat>)
- Customs special procedures for the Union Customs Code (Notice 3001) (<https://www.gov.uk/government/publications/notice-3001-special-procedures-for-the-union-customs-code>)

## 5.4 Services received from outside the UK

If you're the customer and you receive any services from outside the UK that are subject to the B2B general rule for the place of supply of services, those services are treated as if you supplied them, and you must account for any output tax due on them. You can recover the VAT on these services as input tax, subject to the normal rules. This is called the 'reverse charge' procedure.

If you receive B2B general rule services from outside the UK, their value counts towards your taxable turnover. This applies even if the only supplies you make in the UK are exempt.

You may also be required to account for VAT under the 'reverse charge' procedure if you:

- are registered for VAT in the UK
- receive any service - the place of supply of which is the UK (other than B2B general rule services) - from a person who belongs outside the UK

For more information see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## 5.5 Exported goods

If you export goods to a customer outside the UK or outside the EU from Northern Ireland, your supply is normally zero-rated provided that you meet the appropriate conditions.

There are a number of notices which deal with exports. You will find out more about these, and the conditions which you must meet to zero rate your supplies, in Goods exported from the UK (VAT Notice 703) (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>).

## 5.6 Exported services

Some supplies of services to overseas customers are zero-rated, but many are standard-rated. For more information see section 29. ###5.7 Movement of goods between Great Britain and Northern Ireland Find out about moving goods between Great Britain and Northern Ireland (<https://www.gov.uk/guidance/trading-and-moving-goods-in-and-out-of-northern-ireland-from-1-january-2021>)

## 5.8 EU supplies of goods

If you supply goods to a VAT-registered customer in an EU member state and the goods are removed from Northern Ireland to an EU country, your supply may be zero-rated provided you meet the appropriate conditions.

For more information about the VAT treatment of supplies of goods between Northern Ireland and EU, and the conditions you must meet to zero rate your supplies, see The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>).

### **5.8.1 EC Sales Lists**

UK traders registered for VAT who supply goods from Northern Ireland to traders registered for VAT in EU member states are required to send in lists of their EU supplies. These EC Sales Lists are used to control the taxation on supplies within the EU.

For more information about EC Sales Lists see The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>).

### **5.8.2 Intrastat**

You should show the value of the supply to or acquisition of goods from EU member states in boxes 8 or 9 respectively of the VAT Return.

Depending on the level of your trade with EU member states, you may be required to submit more detailed statistical declarations. These are known as Intrastat Supplementary Declarations.

For more information about the Intrastat system see Notice 60: Intrastat general guide (<https://www.gov.uk/government/publications/notice-60-intrastat-general-guide>).

### **5.8.3 Acquisitions**

If you purchase goods from a VAT-registered business in an EU country and the goods are removed to Northern Ireland, you may be required to account for VAT in the UK on the acquisition of the goods.

This VAT can be recovered as input tax on the same VAT Return, subject to the normal rules for reclaiming input tax.

## **6. Registering for VAT**

If you're in business, you must register for VAT when the total value of any of your taxable supplies, distance sales or relevant acquisitions goes over the current registration thresholds (<https://www.gov.uk/vat-registration-thresholds>). You may also register for VAT voluntarily if you're trading below these thresholds.

If your business is not established in the UK, you'll have to register for VAT if you make any taxable supplies here.

There's a VAT registration guide (<https://www.gov.uk/vat-registration>) but if your circumstances are not covered or you need more information, see Who should register for VAT (VAT Notice 700/1) (<https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat>).

## **7. Introduction to output tax**

### **7.1 Output tax**

Output tax is the VAT that's due on your taxable supplies. It's also due in certain other circumstances.

This guidance explains the general rules about output tax, including the amount of tax due and tells you about some special rules for particular cases. It's in 3 sections:

- Section 7 - introduction and tax value
- Section 8 - particular situations
- Section 9 - business and non-business use

## 7.2 Tax value

The tax value of a supply is the value on which VAT is due. The amount of VAT is the tax value multiplied by the tax rate.

The tax value of a supply depends on what you are given in exchange for the supply. This is called the consideration. A consideration is any form of payment in money or in kind, including anything which is itself a supply.

The consideration for a supply includes any payment that you are given to cover your costs in making the supply, unless you incur the costs as an agent (see sections 22 to 25).

## 7.3 Consideration wholly in money

If the consideration for a supply is wholly an amount of money, the tax value is based on that amount. The amount paid includes tax. The tax is the VAT fraction of the amount and the rest of the amount is the tax value.

### 7.3.1 VAT fractions

Tax is normally calculated at the appropriate percentage of a price that has first been decided without VAT, and the VAT invoice will show these separate amounts. But, sometimes VAT has to be calculated from a price in which it is already included (for example, in the less detailed VAT invoices described in paragraph 16.6.1). To do this, you need the VAT fraction.

For example.

If you sell something at	and the VAT rate is	then the amount of VAT is
£2.40	20%	£0.40

But, £0.40 is not 20% of £2.40. It is  $\frac{1}{6}$  of £2.40. This is because here, VAT is already included in the price.

This is how it's worked out: rate of tax divided by (100 + rate of tax).

So, with VAT at 20% the VAT fraction is:  $\frac{20}{120}$ , which is the same as  $\frac{1}{6}$ .

The VAT fraction varies according to the rate of tax chargeable. For example:

Rate of tax	VAT fraction
5%	$\frac{1}{21}$
8%	$\frac{2}{27}$

Rate of tax	VAT fraction
10%	$\frac{1}{11}$
12.5%	$\frac{1}{9}$
15%	$\frac{3}{23}$
17.5%	$\frac{7}{47}$
20%	$\frac{1}{6}$
25%	$\frac{1}{5}$

Note, HMRC will publicise the revised VAT fractions at the time of any change in rates, but you can work it out for yourself by using this method.

### 7.3.2 Discounts

The following rules apply if you offer discounts to your customers. Guidance on how to account for VAT in these circumstances is contained in section 18.

#### (a) Unconditional discounts

If you offer a customer an unconditional discount, and the customer pays the discounted amount, then the tax value is based on the discounted amount.

#### (b) Discounts for prompt payment

If you offer a discount on condition that the customer pays within a specified time, then the tax value is based on the actual amount paid, but if you need to account for the VAT before you know whether the discount has been taken up, you must declare the VAT on the undiscounted price.

#### (c) Contingent discounts

If you offer a discount on condition that something happens later, for example, on condition that the customer buys more from you, then the tax value is based on the full amount paid, if the customer later earns the discount, the tax value is then reduced and you can adjust the amount of tax by issuing a credit note (see paragraph 18.2).

## 7.4 Consideration not wholly in money

If the consideration for a supply is not in money (as in a barter transaction - see paragraph 8.7) or the consideration is partly in money and partly something else (as in part exchange), the tax value of the supply is the monetary equivalent of the consideration (the open market value).

You should normally calculate this by reference to the price, excluding VAT, which a customer would have to pay for the supply if money was the only consideration.

## 7.5 Other rules about tax value

Some special rules about tax value are explained in section 8 and section 9, regarding specific transactions. See also The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>) - for the tax value of acquisition of goods and Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>) - for the tax value of imported goods.

## 7.6 Values expressed in a foreign currency

This section has force of law under the VAT Act 1994, Schedule 6, Paragraph 11 (<http://www.legislation.gov.uk/ukpga/1994/23/schedule/6>).

For VAT purposes, amounts of money must always be expressed in sterling. If you need to convert an amount from a foreign currency into sterling, you must do so on the following basis:

(a) unless you have adopted one of the alternatives set out in (b) or (c), you must use the UK market selling rate at the time of the supply. The rates published in national newspapers will be acceptable as evidence of the rates at the relevant time

(b) as an alternative, you may use the period rate of exchange published by HMRC for customs purposes - the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) can give you details of particular period rates, you may adopt this alternative for all your supplies or for all supplies of a particular class or description - if you opt for only a particular class or description, you should make a note of the details in your records at the time of adoption

You do not need to notify HMRC in advance if you wish to adopt this alternative, but having made such an option, you cannot then change it without first getting agreement by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>)

(c) you may apply in writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) to use a rate - or method of determining a rate - which you use for commercial purposes but which is not covered by (a) or (b)

In considering whether to allow such applications, HMRC will take into account:

- whether the proposed rate or method is determined by reference to the UK currency market
- whether it is objectively verifiable
- the frequency with which it's proposed to update it (forward rates or methods deriving from forward rates are not acceptable)

Whatever rate or method you adopt, the appropriate rate for any supply is that current at the time of the supply.

If you make supplies that fall within the Tour Operators Margin Scheme, see Tour Operators Margin Scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>) for details of how to convert the value of your purchases.

## 7.7 Excise Duty

In the case of goods subject to Excise Duty, the tax value is the value determined according to the principles outlined in this section, plus the duty.

## 8. Output tax for particular situations

## 8.1 Multiple supplies

You make a multiple supply where you charge a single inclusive price for a number of separate supplies of goods or services. A multiple supply is different from a single composite supply of goods or services, to which a single rate of tax applies. So it's important that you establish whether you're making a single or a multiple supply in order to apply the correct VAT treatment.

See paragraph 8.2 for guidance on goods and packaging and paragraph 8.3 for guidance on goods and delivery.

<b>If you have a single transaction and individual supplies are</b>	<b>then you</b>
all liable to VAT at the same rate	calculate the tax that is due in the normal way
not liable to VAT at the same rate	need to work out the tax value of each supply in order to calculate how much tax is due. If the tax value is based on the total price you charge (see paragraph 7.3) you do this by splitting that price between the supplies - this is called an apportionment

For more information on single and multiple supplies, see section VATSC11100 (<https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vatsc11100>) of the VAT Supply and Consideration Manual.

### 8.1.1 Apportionment

There's no special method of apportionment, unless you're using the Tour Operators Margin Scheme, when you must use the method set out in Tour Operators Margin Scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>). But, your calculations must be fair and you must be able to justify them. It's usually best to use one of the methods shown in section 31.

### 8.1.2 When apportionment is necessary

Apportionment is only necessary if the price you charge is the only consideration for the supplies (see paragraph 7.3). If the consideration for the supplies is not wholly in money, you must account for VAT as explained in paragraph 7.4.

### 8.1.3 When apportionment must not be used

You must not use apportionment if the goods and services supplied together make up a single, indivisible supply. For example, a launderette supplies a single service of washing or drying clothes, taxable at the standard rate. It cannot be treated as supplying separate goods and services, such as water, heat, or use of the machines.

## 8.2 Packaging

Normal and necessary packaging, including ordinary tins, bottles and jars, is treated as part of the goods which it contains. The price which your customer pays is treated as a payment for the contents of the packaging alone. This means that if your supply of the contents is zero-rated, then zero rating

also applies to the packaging.

<b>But if</b>	<b>then</b>
the packaging is more than is normal and necessary	there's a multiple supply (see paragraph 8.1) and VAT is due on the packaging - this applies to storage containers and other types of packaging which could be sold separately
you make an additional charge with a supply of goods for their container, to make sure that it is safely returned - and the charge is to be refunded on its safe return	this additional charge is not subject to VAT - but, if the charge has been raised to cover the loan, hire or use of the container, then this charge would be subject to VAT at the standard rate

### 8.3 Delivery charges (postage and packing)

When you supply goods.

<b>If you</b>	<b>then</b>
make an arrangement to deliver or post them for an extra charge	the extra charge is for the supply of a separate delivery service
send goods by post	the charge made to you by Royal Mail may be exempt, but your charge to your customer is taxable even if it's exactly equal to the charge made to you by Royal Mail

<b>but if</b>	<b>then</b>
the terms of your agreement with your customer for the supply of the goods require you to deliver or post them to the customer	<p>there's no separate supply of delivery or postage. This applies even if you show a separate charge.</p> <p>This means that you make a single supply of delivered goods and, if the supply of the goods is zero-rated, then the zero rating also extends to cover the delivery or postage. This applies to most mail order online transactions, but not if a delivery service is available at an extra charge for customers who request it, nor if the goods are supplied on approval terms</p>

You will find more about all of this in Postage, delivery and direct marketing (VAT Notice 700/24) (<https://www.gov.uk/guidance/vat-on-postage-delivery-and-direct-marketing-notice-70024>).

If you supply delivery services see Freight transport and associated services (VAT Notice 744B) (<https://www.gov.uk/guidance/vat-on-freight-transport-and-associated-services-notice-744b>).

### 8.4 Hire-purchase, conditional sale and credit sale

Hire-purchase takes place under an agreement for the sale of goods, periodic payments are made and title passes at the end of the contract unless the customer opts out of a small option to purchase fee, normally payable with the last instalment.



Conditional sale means the sale of goods where the price is payable by instalments. The goods remain the property of the seller until the full price is paid or the customer meets another condition.

Credit sale means the sale of goods which immediately become the property of the customer but where the price is payable by instalments.

These are all supplies of goods, and VAT is due on their full value at the time of supply (tax point) see sections 14 and 15.

#### 8.4.1 Supplies not involving a finance company

If you make an agreement to supply goods in any of the ways outlined, without involving a finance company, which means you're self-financing the credit, your charge for credit will be exempt from VAT if it's disclosed as a separate charge to your customer.

The consideration for the taxable supply of goods is the cash price stated in the agreement, before any deposit is paid.

If you supply goods on interest free credit, by arranging with your customer for them to pay for goods over a set period without charging interest, the supply of goods is taxed according to its liability. As there's no charge for credit there's no exempt supply for VAT purposes.

Any connected credit ancillary charges are exempt unless the contract explicitly states that the charge relates, wholly or partially, to the supply of goods. If the supply relates to the credit, normally shown as administration, documentation or acceptance fees it will be exempt from VAT.

Fees that relate to goods - such as option fees or fees for transfer of title - are not exempt unless the charge for them is £10 or less.

There's more information about the exempt supplies connected with agreements of this kind in VAT Notice 701/49: finance (<https://www.gov.uk/government/publications/vat-notice-70149-finance>).

#### 8.4.2 Supplies involving a finance company

<b>If the finance company</b>	<b>then your supply of goods is to</b>
becomes the owner of goods (for example, when a purchase is financed by a hire-purchase agreement)	the finance company, not to the customer.  Note: this supply is taxable and you do not make an exempt supply. The finance company, in turn, makes a supply of goods and a supply of credit. The supply of credit is exempt if the credit charge is disclosed to the customer in writing
does not become the owner of the goods  (for example, when a purchase is financed by a loan agreement)	your customer. It's not to the finance company, even though that company may pay you direct.  Note: this supply is taxable and VAT is due on the selling price to your customer even if you receive a lesser amount from the finance company. You do not make an exempt supply. The finance company makes a supply of credit facilities to the customer in a separate transaction

### 8.5 Second-hand goods

For most second-hand goods, there's a special scheme which allows you to charge tax on the difference between your buying price and your selling price, rather than on the full selling price. Using the scheme is optional and is conditional on meeting the scheme rules about record keeping.

There's also a simplified Global Accounting Scheme and a variation for use by auctioneers.

For more information see the following notices:

- Margin and Global Accounting Scheme VAT Notice 718 (<https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718>)
- Margin Scheme on second-hand cars and other vehicles VAT Notice 718/1 (<https://www.gov.uk/guidance/the-margin-scheme-on-second-hand-cars-and-other-vehicles-vat-notice-7181>)
- Auctioneers' Scheme VAT Notice 718/2 (<https://www.gov.uk/guidance/auctioneers-scheme-for-vat-notice-7182>)

## 8.6 Exchange units

These rules govern the exchange of articles as part of your business.

If you	then you
frequently exchange reconditioned articles for similar but unserviceable articles (for example, spare parts for cars, domestic appliances or other machinery)	are providing a reconditioning service, and your supply is one of services - you must charge VAT on the full amount you charge for the reconditioned or exchange unit - if you reduce the charge to your customer by giving a refund when the unserviceable article is handed in, you should follow the procedure at paragraph 18.2
exchange a serviceable article for one which is unserviceable, on a one-off basis or you exchange goods for other goods at a reduced price in any other circumstances	must treat it as part-exchange - paragraph 7.4 explains how you should calculate the VAT due

## 8.7 Barter and part-exchange

If you supply services, or new or second-hand goods, and receive other goods or services in full or part-payment, two separate supplies take place. There's a supply of goods or services from you to your customer and a supply of goods or services by the customer to you.

Both you and your customer must account for VAT if the customer is a taxable person. Paragraph 7.4 explains how you work out the value of these supplies.

## 8.8 Samples of goods

You may supply samples of your business supplies and this will not be a supply for VAT purposes providing that the following conditions are met.

### 8.8.1 General

The general conditions are that you:

- make no charge for them
- supply them for genuine business purposes as an illustrative or typical example of your product

### **8.8.2 Samples given to the general public via an intermediary**

(For example, samples supplied by a manufacturer to a retailer for giving away as samples to the retailer's customers).

No VAT is due if each sample meets the general rules, so long as:

- neither you, nor the intermediary charge for them
- you supply them for genuine business purposes and they're to be given as an illustrative or typical example of your product
- the samples remain your property until they're given to the final customer
- any samples which are not used are returned to you or destroyed

If you sell goods given to you as samples, VAT is due on the sale.

## **8.9 Gifts**

### **8.9.1 General**

An article is a gift where the donor is not obliged to give it and the recipient is not obliged to do or give anything in return. Competition prizes are usually treated as gifts.

A gift of goods is normally a taxable supply and VAT is due on the cost of the goods.

The 'cost of the goods' means what it would cost you to purchase the goods in question at the time of the supply.

If no such purchase price can be ascertained then the value is what it would cost to purchase goods similar to, and of the same age and condition as, the goods in question.

If that cost cannot be ascertained then the value is the cost of producing the goods in question at that time.

VAT is not due on certain gifts of goods (see paragraph 8.9.3).

A gift of services is not a taxable supply. But you must remember that lending someone an item from your business for use outside your business is a taxable supply. The cost of the supply is determined by reference to the standard-rated costs of making the deemed supply (see paragraph 9.3.2).

### **8.9.2 Goods and services supplied as inducements**

You might offer someone a 'gift' on condition that they:

- buy something from you
- provide something for you
- perform some other action of benefit to you

Goods and services supplied in these circumstances are not true gifts and VAT is due on the basis explained in paragraph 7.4. See Business promotions (VAT Notice 700/7) (<https://www.gov.uk/guidance/business-promotions-and-vat-notice-7007>) or the special rules for this kind of supply.

### 8.9.3 Gifts on which VAT is not due

VAT is not due on certain gifts. For more information see paragraphs 2.2 and 2.3 of Business promotions (VAT Notice 700/7) (<https://www.gov.uk/guidance/business-promotions-and-vat-notice-7007>).

### 8.10 Loss of goods

This paragraph explains when VAT is due if goods are lost, stolen or destroyed.

If	then VAT
you have not supplied the goods	is not due
you have supplied the goods	is due
goods are lost on their way to your customer and the contract makes the customer responsible for any loss before delivery	is due
goods are lost on their way to a customer and the contract makes you responsible for any loss before delivery and:  (a) you have issued a VAT invoice (see sections 16 and 17) to the customer (b) you have not issued a VAT invoice	(a) is due on the amount shown less any credit you allow your customer (b) is not due because you have not made a supply
damaged goods are surrendered to an insurer under the terms of an insurance policy	is not due
you have been defrauded of goods	may be adjusted where the police are satisfied that fraud has taken place. For more information see section VATSC99500 ( <a href="https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vat-sc99500">https://www.gov.uk/hmrc-internal-manuals/vat-supply-and-consideration/vat-sc99500</a> ) of the VAT Supply and Consideration Manual

### 8.11 Goods sold in satisfaction of a debt

A supply takes place if a registered person's business assets are sold in satisfaction of a debt. Paragraph 18.4 tells you how to deal with these sales.

### 8.12 Payphones and phonecards

### **8.12.1 Payphones**

If you rent a payphone from British Telecom or another supplier, you make supplies to the users of the phone and VAT is due on these supplies. The VAT fraction (see paragraph 7.3.1) of the money removed is your output tax.

Note: with some payphone installations, it's possible to switch from payphone mode to domestic mode and make calls without inserting money. If you use the domestic mode to make non-business calls, you cannot treat all the VAT you're charged by your supplier as input tax. For more information see section 32.

### **8.12.2 Phonecards**

If you act as an agent in the sale of phonecards, you're making a standard-rated supply. You must account for VAT on the commission received from your supplier. If you use a retail scheme, you will find more about what to do in the notice for the scheme you use. For more information see Business promotions (VAT Notice 700/7) (<https://www.gov.uk/guidance/business-promotions-and-vat-notice-7007>).

## **8.13 Cancellation charges, forfeited deposits and booking fees**

### **8.13.1 Charges, deposits and fees**

VAT is due on all charges, deposits and fees which are full or part payments for a supply of goods or services.

If you retain a (full or part) payment for goods or services which your customer fails to take up, then VAT is due on the amount paid. The payment cannot be reclassified if the supply is unfulfilled, so cannot be treated as outside the scope of VAT.

If you refund the payment, then you can reclaim any VAT you have accounted for in your next return.

If as an agent, you charge a customer a booking fee, for example, for making a hotel reservation, then the fee is consideration for making the booking, this does not change if the customer does not take up the hotel room.

### **8.13.2 Guarantees or insurance**

If you provide a guarantee or insurance against your customer having to pay cancellation charges, then VAT is due on the charge that you make to the customer.

But if you arrange for insurance to be provided to your customer along with your goods or services and, under the policy, it's the individual customer's risk which is insured, then your supply of arranging the insurance may be exempt providing certain disclosure provisions are met - for more information see Insurance (VAT Notice 701/36) (<https://www.gov.uk/guidance/insurance-notice-70136>).

## **8.14 Service charges and tips**

If you make a compulsory service charge, that payment forms part of the consideration for the supply, and therefore follows the liability of that supply. Optional service charges are not consideration and are therefore outside the scope of VAT. If a customer freely gives a tip over and above your total charge no VAT is due on the tip - again it's outside the scope of the tax.

## **8.15 Government departments, local authorities, visiting forces**

If you supply goods or services to government departments (including health authorities), non-departmental public bodies, local authorities, embassies, foreign missions or international organisations in the UK, you should charge and account for VAT in the usual way.

If you receive supplies from government departments (including health authorities) or local authorities, you may be charged VAT.

If you make supplies of goods to visiting armed forces stationed in the UK, they can be relieved of VAT provided you meet certain conditions. For more information see VAT relief for suppliers to visiting forces (VAT Notice 431) (<https://www.gov.uk/guidance/vat-relief-for-suppliers-to-visiting-forces-notice-431>).

## **8.16 Domestic reverse charge for specified goods and services**

If you make supplies of goods and services set out in Domestic reverse charge procedure (VAT Notice 735) (<https://www.gov.uk/guidance/the-vat-domestic-reverse-charge-procedure-notice-735>) to other VAT-registered businesses, the VAT on your supplies must, in most cases, be accounted for under the reverse charge procedure. This procedure is explained in detail in VAT Notice 735: VAT domestic reverse charge on specified goods and services.

## **8.17 Single-use carrier bags**

There's a compulsory minimum charge for single-use carrier bags in England, Scotland and Wales. The charge is tax inclusive at the standard rate of VAT. There's a levy for single-use carrier bags in Northern Ireland. Provided the price charged does not exceed the levy and is remitted to the Northern Ireland Environment Agency, no VAT is due.

# **9. Output tax for business and non-business use**

## **9.1 Disposal of business assets**

If you dispose of goods which form part of the assets of your business - for example, you sell them, give them away or take them into private use - this is normally a supply for VAT purposes and, where it's a taxable supply, you'll have to account for VAT on the disposal.

But, special rules apply if you sell your business as a going concern. See paragraph 26.10 for details.

VAT may also be due on stocks and assets on hand when you cancel your VAT registration. See VAT Notice 700/11: cancelling your registration (<https://www.gov.uk/government/publications/vat-notice-70011-cancelling-your-registration>), unless you're selling the business as a going concern (for which you should see paragraph 26.10).

## **9.2 Use of goods or services in your business**

If you use goods or services in your business, which the business itself has made or acquired, no VAT is normally due. This is because you do not make a supply.

But, your use of goods is treated as a taxable self-supply if you:

- are a motor manufacturer, vehicle converter or vehicle dealer and use a motor car in your business (see Motoring expenses (VAT Notice 700/64) (<https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>))
- put a car on which you claimed input tax (because it was to be used as a taxi, for self-drive hire or giving driving instruction) to some other use

- use your own labour to construct a building (other than dwellings or certain other residential buildings) or to increase the floor area of an existing building by 10% or more (see Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>))

## 9.3 Private use of goods, including road fuel, and services

### 9.3.1 Goods

When goods that belong to your business are put to a private use outside the business, you make a taxable supply. This includes goods that you have produced yourself, as well as goods from your stock and any other business assets.

Private use includes:

- your own personal use of business assets
- use outside the business by anyone else, such as an employee, a relative or a friend

Some common examples of private use are:

- you use goods owned by your business for private purposes
- you give or lend someone an item from your business
- your employees use goods that are assets of your business, at weekends or for holidays

If the goods are put to permanent private use, so that they're no longer business assets, the supply is one of goods. If there's no consideration for the supply, VAT is due on the cost of the supply.

The 'cost of the goods' means what it would cost you to purchase the goods in question at the time of the supply.

If no such purchase price can be determined then the value is what it would cost to purchase goods similar to, and of the same age and condition as, the goods in question.

If that cost cannot be determined then the value is the cost of producing the goods in question at that time.

If the private use is temporary, the supply is one of services. If there's no consideration for the supply, VAT is due on the cost of the supply. Over any period of time, this is the amount of depreciation on the goods plus any other standard-rated costs related to the goods multiplied by the proportion that the private use forms of the total use.

This is calculated as:

Depreciation + costs in the relevant period × (private use ÷ total use).

There are special rules for accounting for VAT on the private use of road fuel. For more information see Motoring expenses (VAT Notice 700/64) (<https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>).

### 9.3.2 Services

When services that you acquired wholly for business use are put to a private or other non-business use, you make a supply of services and must account for output tax.

Examples of the type of services affected are:

- computer software
- building construction and refurbishment, particularly to domestic premises, which are carried out for the purpose of business but whose use changes over time

Not affected are continuous supplies of services, where you should normally apportion input tax between business and private or non-business use.

To calculate the output tax due, you may use the accounting convention you use for depreciating similar business assets, or any other fair and reasonable method of valuing the cost to you of the private or non-business use.

## **10. Introduction to input tax**

### **10.1 Input tax**

Input tax is the VAT you're charged on your business purchases and expenses, including:

- goods and services supplied to you in the UK
- goods you import from outside the UK
- goods you acquire into Northern Ireland from a taxable person in an EU member state (see The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>))
- goods you remove from a warehouse
- any services supplied in the UK which you receive from abroad
- overheads and research and development costs

This guidance explains the basic rules about input tax. It's in 4 sections:

- Section 10 - introduction and general rules
- Section 11 - VAT paid on goods and services obtained before registration
- Section 12 - subsistence, staff entertainment and domestic accommodation expenses
- Section 13 - partial exemption

### **10.2 What can be claimed as input tax**

You can normally reclaim input tax that relates to:

- supplies you make which are liable at the standard rate, reduced rate or the zero rate (see section 3)
- supplies you make which are outside the scope of UK VAT but which would be taxable supplies if they were made in the UK
- supplies of services you make to a person who belongs outside the UK, or supplies of services you make which are directly linked to the export of goods to a place outside the UK - and the making of arrangements for such supplies, provided the supply would have been exempt by virtue of any item of Group 2, or any of items 1 to 8 of Group 5, of Schedule 9 to the VAT Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/schedule/9>)



For more information about supplies of services see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## 10.3 What cannot be claimed as input tax

You cannot normally reclaim VAT you have been charged:

- on goods and services not used for your business (see paragraph 4.6.3)
- on a car, including fitted accessories and delivery charges (see Motoring expenses (VAT Notice 700/64) (<https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>))
- on business entertainment expenses (see Business entertainment (VAT Notice 700/65) (<https://www.gov.uk/guidance/business-entertainment-and-vat-notice-70065>))
- if you're a developer, on certain articles that are installed in buildings that you sell or lease at the zero rate (see Buildings and construction (VAT Notice 708: buildings and construction) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>))
- on purchases that fall within the tour operators margin scheme (see Tour operators margin scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>))
- on goods sold to you under one of the VAT second-hand schemes (see paragraph 8.5)
- on assets of a business transferred to you as a going concern (see paragraph 26.10)
- which relates to exempt supplies (see paragraph 13.1)
- if that charge was incorrect

## 10.4 How to reclaim input tax and the amount that can be claimed

### 10.4.1 How you reclaim

You reclaim your input tax by deducting it from your output tax when you complete your VAT Return. If your input tax is greater than your output tax, you reclaim the difference from HMRC. For more information see How to fill in and submit your VAT Return (VAT Notice 700/12) (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>).

### 10.4.2 Amount of input tax

If	then
you can reclaim input tax in full	the amount to reclaim will be the amount of VAT shown on the VAT invoice from your supplier
the invoice is a less detailed VAT invoice (see paragraph 16.6.1) which does not show the VAT charged separately	your input tax will be the VAT fraction of the total amount charged for any standard-rated supply (see paragraph 7.3.1)  This must be the VAT fraction for the rate of VAT in force at the time of supply (tax point). See sections 14 and 15

## 10.5 Timescales for reclaiming input tax

You should normally claim input tax on the VAT Return for the period during which the supplier's tax point occurred or, for imported goods, the date of the importation. The timescales for Northern Ireland and EU acquisitions are given in The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>). The tax point (time of supply) will be shown on your supplier's invoice.

You must also hold the associated evidence to claim deduction of input tax. If you're unable to claim input tax in the normal period because you do not hold the necessary evidence you should claim the input tax on the VAT Return for the period during which you receive that evidence.

If you're approved to use the Cash Accounting Scheme referred to in paragraph 19.2.1 you must also have paid for the supply. For more information see Cash Accounting Scheme (VAT Notice 731) (<https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731>).

If you do not claim the input tax on the VAT Return for the period in which you were first entitled to deduct it, this is an error. You cannot deduct it on a later return. If you wish to correct such an error, you will need to do so in accordance with the methods explained in section 4 of How to correct VAT errors and make adjustments or claims (VAT Notice 700/45) (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims#correcting-vat-errors-on-a-return-already-submitted>). The time limit for claiming deduction of input tax is 4 years from the due date for the return on which you were first entitled to claim deduction of the input tax.

## **10.6 Evidence needed for claims of input tax**

You must keep certain records to be able to reclaim input tax. See section 19 for details.

To reclaim VAT you've been charged as input tax, you must hold valid evidence that you have received a taxable supply. You can find what counts as acceptable evidence in paragraph 19.6.

### **10.6.1 Repayment of input tax if you do not pay your supplier**

For supplies received on or after 1 January 2003 you're required to repay any input tax you have reclaimed if you have not paid your supplier within 6 months of the:

- (a) date of supply (usually taken as the invoice date)
- (b) due date for payment, if it occurs later

For more information see Relief from VAT on bad debts (VAT Notice 700/18) (<https://www.gov.uk/guidance/relief-from-vat-on-bad-debts-notice-70018>).

## **10.7 Refunds of VAT paid in other countries**

If you buy goods or services in other countries, you may have to pay VAT there. This should not happen if you buy goods for export from that country, but it may apply if, for example, you take part in a trade exhibition.

You may also be able to claim refunds of VAT or similar turnover taxes incurred in other countries.

## **10.8 Other helpful publication**

Special rules apply if you're a body covered by section 33 of the Value Added Tax Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/contents>). For more information see Local authorities and similar bodies (VAT Notice 749) (<https://www.gov.uk/guidance/local-authorities-and-similar-bodies-notice-749>).

## **11. Input tax when VAT paid on goods and services received before VAT registration**

### **11.1 Recovery of VAT paid before registration**

VAT paid on goods and services that you received before you were registered for VAT is not input tax.

But, when you become registered you can treat this VAT as though it were input tax if you hold acceptable evidence (see paragraph 19.7) and can meet the conditions in paragraph 11.2.

You may only recover VAT you incurred before registration which is attributable to making taxable supplies. The partial exemption de minimis limits (see paragraph 13.1) do not apply to VAT incurred before registration.

Special rules apply if you become registered as a result of having exercised an option to tax for certain property transactions (see *Opting to tax land and buildings (VAT Notice 742A)* (<https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a>)).

### **11.2 Conditions for recovering VAT incurred on goods before you registered**

You can treat the VAT on goods that you obtained or imported before you were registered as if it were input tax. If:

- the goods were supplied not more than 4 years before the business was registered or was required to be registered
- the goods were supplied to the person who is now registered for VAT
- the goods were obtained for the business which is now covered by the VAT registration and related to its taxable activities - if the services related partly to taxable activities and partly to other activities, you must work out what proportion of the use of the services related to the taxable activities
- you still hold the goods or they have been used to make other goods which you still hold
- you compile a stock account of the goods - this must show the quantities of goods and the dates when you obtained them, and if you used any goods to make other goods, or disposed of them after you were registered for VAT, the account must give details, with dates

Remember, you cannot claim VAT incurred on goods which have been completely used up before registration.

You do not need to reduce the VAT you deduct on fixed assets (for example a van or machinery) to account for any use of the asset before you're registered, provided the asset is still in use in the business when you register.

But, you must reduce the VAT you deduct on stock for resale to account for any stock that is sold before you're registered.

If the person who is now registered is a corporate body, you may still be able to reclaim VAT from before it was incorporated. See paragraph 11.4.

If you're buying an existing business, you should also read paragraph 26.10.

## 11.3 Conditions for recovering VAT incurred on services before you were registered

You can treat the VAT on services that you received before you were registered as if it were input tax. If:

- the services were supplied not more than 6 months before the business was registered or was required to be registered
- the services were supplied to the person who is now registered for VAT
- the services were received for the purposes of the business which is now covered by the VAT registration and related to its taxable activities - if the services related partly to taxable activities and partly to other activities, you must work out what proportion of the use of the services related to the taxable activities
- the services were not related to goods which you disposed of before you were registered (such as repairs to a machine which was sold before registration)
- you compile an account of these services, this must describe the services and the dates when you received them and, if the services related to goods which you disposed of after you were registered for VAT, the account must give details, with dates

If the person who is registered is a corporate body, you may still be able to reclaim VAT from before it was incorporated. See paragraph 11.4.

## 11.4 Rules for reclaiming VAT on supplies before incorporation

If your business is a corporate body (a company, charity or association), the rules do not allow you to reclaim any VAT on goods or services obtained before the body was incorporated. But you can treat this VAT as input tax if the:

- rules in paragraphs 11.2 or 11.3 would allow you to do so if the goods or services had been supplied to the person who is now registered for VAT
- goods or services were obtained or imported by a person who became a member, officer or employee of the body
- person was reimbursed for the full cost
- person was not a taxable person at the time of the supply or importation

## 12. Input tax effect on subsistence, staff entertainment and domestic accommodation expenses

### 12.1 Subsistence and staff entertainment expenses

#### 12.1.1 General

If	then you
you pay an employee a flat rate for subsistence expenses	cannot claim as input tax any VAT incurred on those expenses

<b>If</b>	<b>then you</b>
the business pays the actual cost of the supplies	can claim the input tax incurred, as explained in paragraphs 12.1.2 and 12.1.3
the business pays a proportion of the actual costs	can treat as input tax the VAT fraction (see paragraph 7.3.1) of the amount the business pays

### **12.1.2 Meals**

<b>If</b>	<b>then you can treat</b>
your business provides canteen facilities for you or your staff	all the VAT incurred in providing these facilities as input tax
your business pays for meals for employees	any VAT incurred as your input tax
you're a sole proprietor, partner or director	as input tax the VAT on meals you take when you're away from your normal place of work on a business trip, but you cannot recover the VAT on meals which are not taken for business purposes

### **12.1.3 Hotel accommodation**

When you or your employees are away from your normal place of work on a business trip, you can treat as input tax all the VAT incurred on hotel and similar accommodation.

### **12.1.4 Staff entertainment**

You may recover VAT incurred on staff entertainment to the extent that the expenditure relates to the purpose of your business.

If you provide or pay for accommodation, meals or entertainment for anyone else, see Business entertainment (VAT Notice 700/65) (<https://www.gov.uk/guidance/business-entertainment-and-vat-notice-70065>).

## **12.2 Domestic accommodation**

### **12.2.1 Employees**

If your business provides domestic accommodation for employees, you can treat any VAT incurred as input tax.

### **12.2.2 Sole proprietors, partners and directors**

If you're a sole proprietor, partner or director, then you cannot recover the VAT on expenses such as repair or maintenance connected with your domestic accommodation - even if the business owns the accommodation and bears the cost.

But if the accommodation is used partly for business purposes (for example, if you use a room for meetings or as your office), then you can reclaim as input tax part of the VAT charged. Section 32 explains how you work out how much VAT you can reclaim.

## **12.3 Input tax: mobile phones provided to employees**

### **12.3.1 VAT on the purchase and connection of a mobile phone**

Where a business provides its employees with mobile phones for business use then, regardless of whether it allows private use, it can treat as input tax all the VAT it incurs on purchasing a phone and on standing charges for keeping it connected to the network providing the charges do not contain any element for calls.

### **12.3.2 VAT on mobile phone call charges**

#### **Business only**

If a business does not allow its employees to make private calls, all of the VAT incurred on the call charges is input tax. HMRC will accept this is the case where a business has imposed clear rules prohibiting private use and enforces them. But HMRC realises that in practice businesses with such a policy often tolerate a small amount of private calls. HMRC is prepared to treat such minimal use as being insignificant for VAT purposes and it will not prevent a business treating all the tax it incurs on calls as input tax.

#### **Charges for private calls**

If a business charges its employees for any private calls they make, then it may treat the VAT incurred on the calls as input tax, but must account for output tax on the amounts it charges.

#### **Free private calls**

If a business allows its employees to make private calls without charge, then it must apportion the VAT incurred on the call charges. It is not appropriate for businesses to adopt an alternative treatment of accounting for output tax on the private use.

#### **Apportioning calls**

Businesses can choose any apportionment method that suits their individual circumstances providing the method chosen produces a fair and reasonable result. For example businesses could analyse a sample of bills taken over a reasonable period of time and use the same ratio for future VAT recovery on mobile phone bills.

### **12.3.3 Fixed monthly charges**

Where the phone package allows the business to make a certain quantity of calls for a fixed monthly payment and there's no separate standing charge, then it must apportion the VAT on the total charge for the package. Similarly, where the contract is for the purchase of the phone and the advance purchase of a set amount of call time for a single charge, the apportionment will also apply to the whole charge.

## **13. Input tax and partial exemption**

## 13.1 Exempt supplies and partial exemption

If you incur input tax that is related to exempt supplies as well as taxable supplies, you're termed as partly exempt and you probably will not be able to claim all your input tax. You'll need to adopt a partial exemption method to calculate how much input tax you can recover. For more information see Partial exemption (VAT Notice 706) (<https://www.gov.uk/guidance/partial-exemption-vat-notice-706>).

## 13.2 Capital Goods Scheme

If you use a capital item to make VAT exempt supplies, or for non-business purposes, the VAT incurred on the cost of the item may be subject to adjustments under the Capital Goods Scheme.

Capital items include:

- computers and items of computer equipment with a VAT exclusive cost of £50,000 or more
- land, buildings, civil engineering works and refurbishments with a VAT exclusive cost of £250,000 or more
- alterations, extensions and annexes to buildings and engineering works with a VAT exclusive cost of £250,000 or more
- ships, boats and other vessels, and aircraft with a VAT exclusive cost of £50,000 or more

Capital items do not include assets held for re-sale.

For more information see Capital Goods Scheme (VAT Notice 706/2) (<https://www.gov.uk/guidance/capital-goods-scheme-notice-7062>).

## 14. Time of supply (tax point) rules

### 14.1 Introduction to time of supply

The information on this subject is in 2 sections.

This section provides general information. It explains the rules for working out the time when a supply of goods or services is treated as taking place. This is called the tax point. The section includes information on basic and actual tax points.

Section 15 provides information on some specific situations.

You must normally account for VAT in the tax period in which the tax point occurs, at the rate in force at that time. But, if you use the Cash Accounting Scheme this may be different. For more information on the special rules for this scheme see Cash accounting (VAT Notice 731) (<https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731>).

If your supplies fall within the Tour Operators Margin Scheme, you must follow the rules for that scheme, even if these conflict with the tax point rules set out in this section. For more information see Tour operators margin scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>).

You may also find Record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>) useful.

### 14.2 General information about tax points

## 14.2.1 Basic tax points

<b>If you supply</b>	<b>then the basic tax point is</b>
goods	usually the date when you send them to your customer or the customer takes them away. This includes supplies under hire-purchase, credit sale or conditional sale agreements
goods but they are not to be sent or taken away (for example, because you build them on site)	the date you make them available for your customer to use
services	the date when the service is performed - it's normally taken as the date when all the work except invoicing is completed

But whether you supply goods or services, the basic tax point is overridden if an actual tax point is created under paragraph 14.2.2.

## 14.2.2 Actual tax points

<b>If you</b>	<b>then the</b>
(a) either issue a VAT invoice or receive a payment before the basic tax point	tax point for the amount you invoice or receive is the date you issue the invoice or receive the payment, whichever happens first. Payment can include payment by book entry, for example, the off-setting of supplies or mutual debts. The tax point is when the entry is made. If the payment by book entry is in the form of an adjustment in your annual accounts, the tax point is the date the accounts are approved, provided no previous tax point has occurred
(b) issue a VAT invoice up to 14 days after the basic tax point	date when you issue the invoice becomes the tax point. But remember that if you have already issued a VAT invoice (for a part payment) or received a payment before the basic tax point, this will have created a tax point under (a) for the amount invoiced or received

You do not have to follow the 14 day rule, but if you decide not to you must tell HMRC by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

If you wish to have an extension of the 14 day rule, then you must apply to HMRC by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>), giving your reasons.

You may need to do this if you normally issue invoices monthly, because an extension would allow you to issue invoices shortly after the end of the month in which you make the supplies.

In your application you must say whether you want to take the last day of the month or the date of issue of the VAT invoice as the tax point. Whichever you decide, you must be consistent if the extension is approved.

<b>If</b>	<b>then</b>
-----------	-------------



If	then
you issue a VAT invoice more than 14 days after the basic tax point without approval to extend the 14 day rule	tax will be due at the basic tax point. If you have already issued a VAT invoice (for a part payment) or received a payment before the basic tax point, this will have created a tax point under (a) for the amount invoiced or received
you want to apply the 14 day rule to certain types of supplies only	you must write to the VAT Written Enquiries Team ( <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries</a> ), giving your reasons

To issue VAT invoices, you must send or give them to your customers for them to keep. A tax point cannot be created simply by preparing an invoice.

Remember, when a tax point is created by the issue of a VAT invoice, you must account for VAT in your return for the period covering that tax point. You cannot delay accounting for VAT until you have received payment. But, if you use cash accounting see paragraph 19.2.1.

### 14.2.3 Deposits

Most deposits serve primarily as advance payments and will create tax points under paragraph 14.2.2(a) when you receive them. But some types of deposit are not a consideration for a supply and their receipt does not create a tax point.

For example, if you take a deposit as security to ensure the safe return of goods you have hired out, and the deposit is either refunded when the goods are returned safely or forfeited to compensate you for loss or damage, then no tax point is created.

Also, if a third party acts as a stakeholder (as opposed to an agent of the vendor) in a supply of property and receives a deposit, then no tax point is created until the money is released to the vendor.

## 14.3 Continuous supplies of goods and services

If you supply services on a continuous basis and receive payments regularly or from time to time, there's a tax point every time you issue a VAT invoice, or receive a payment, whichever happens first.

If payments are due to be made at regular intervals (for example, by banker's order or direct debit), you can issue a VAT invoice at the start of any period of up to one year (provided that more than one payment is due in the period) to cover all the payments due in that period.

For each payment you should set out the:

- VAT-exclusive amount
- date on which the payment is due
- rate of VAT
- VAT payable

If you decide to do this, you do not have to account for tax on any payment until the date on which it is due, or date you receive it, whichever happens first.

Your customer must not reclaim, as input tax, any VAT shown on the VAT invoice until the date on which the payment is due, or you have received the payment, whichever happens first.

The same procedures apply to continuous supplies of goods, in the form of water, gas and electricity.

### 14.3.1 Continuous supplies to connected persons

Where you're making continuous supplies of goods or services to a connected person, and the recipient is unable to fully recover the VAT on the supply, the legislation creates an annual tax point where one has not already occurred.

For more information on determining whether you're connected, see paragraph 13.7 of Opting to tax land and buildings(Notice 742A) (<https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a#sec13>).

If you think you might be affected by the annual tax point provisions you can find more information on what to do in section VATTOS2385 of the VAT Time of Supply Manual (<https://www.gov.uk/hmrc-internal-manuals/vat-time-of-supply/vattos2385>).

### 14.4 Goods supplied on sale or return, approval or similar terms

When you supply goods on sale or return, for example, they have not been sold and you still own them until such time as they're adopted by your customer. Adoption means that the customer indicates a wish to keep them. Until your customer does so, your customer has an unqualified right to return them at any time, unless you have agreed a time limit.

You may have fixed a time limit of adoption of less than 12 months from the date when the goods were sent.

<b>If a time limit has</b>	<b>then the basic tax point is</b>
been fixed for a period of 12 months or less	the date when that time limit expires
not been fixed or fixed for a period of more than 12 months	12 months from the date when the goods were sent
In either case if your customer adopts the goods before the time limit expires the date of adoption becomes the basic tax point	

The basic tax point is overridden by the issue of a VAT invoice as set out in paragraph 14.2.2. If you receive a payment which is not returnable, this will normally indicate that the goods have been adopted. The payment of a deposit required as a condition of delivery - which is repayable if the goods are returned - does not constitute adoption.

It's your responsibility to make sure that your customers notify you promptly when they have adopted goods.

### 14.5 Change of tax rate

If there's a change in tax rate or tax liability, the tax point rules are particularly important in working out what rate of VAT to charge. Section 30 gives guidance on the special procedures to follow.

## 15. Time of supply (tax point) in other situations

### 15.1 Goods taken for personal or other non-business use

<b>If you take goods out of your business</b>	<b>then</b>
permanently, for non-business use	the tax point is the time when the goods are taken or set aside for this purpose
temporarily for non-business use, but they're still part of your stock or business assets	there's a tax point each time they're used or - if the non-business use continues over a period of time - on the last day of each tax period that the goods are used or made available for that purpose

(See paragraph 9.3).

## 15.2 Taxable self-supplies

The tax point for the self-supply of:

- a motor car can only be decided once you use the vehicle in your business (for example, as a demonstration model) - the tax point is then the date when, by any positive and recorded action, you transferred the car from the new car sales stock
- construction services is when the service is performed (see Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>))

(See paragraph 9.2.)

## 15.3 Supplies in the construction industry under contracts providing for stage payments

If you make supplies, including design, advisory and supervisory services, under such a contract, the tax point is normally the time you issue a VAT invoice, or receive a payment, whichever happens first.

But, in some areas, there's a final tax point when the work is completed. For more information about the tax point rules as they apply to the construction industry see Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>).

## 15.4 Supplies under contracts (other than stage payment construction contracts) providing for retention payments

The tax point for the payment of retention money is the date when you either issue a VAT invoice or receive any payment, whichever happens first.

## 15.5 Supplier's goods in possession of buyer

<b>If</b>	<b>and</b>	<b>then the tax point is the earliest of the following dates</b>
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<b>If</b>	<b>and</b>	<b>then the tax point is the earliest of the following dates</b>
your customer takes delivery of goods under an agreement where ownership will pass at a future date	the price will not be fixed until that date	when ownership passes to your customer when you issue a VAT invoice or when you receive any payment

If the tax point is the date when ownership passes and you issue a VAT invoice within 14 days of that date, then the date when the VAT invoice is issued becomes the actual tax point (see paragraph 14.2.2(b)).

## 15.6 Supplies of water, gas or any form of power, heat, refrigeration or ventilation

There's a tax point each time you, issue a VAT invoice or receive a payment, whichever happens first.

## 15.7 Supplies made through coin operated machines

The tax point for supplies made through coin operated machines, such as vending, amusement and gaming machines, is normally the date the machine is used. Nevertheless, as an accounting convenience, HMRC permits operators to delay accounting for VAT until the takings are removed from the machine.

But, for all other purposes the normal tax point rules apply. This means, for example, that if takings are stolen from a machine, you must still account for VAT in full on the supplies made from the machine.

## 15.8 Royalties and similar payments

<b>If</b>	<b>then</b>
at the time when you supply services, you cannot work out the royalties that you will subsequently receive, and which are in addition to any amount already payable for the supply	there will be a further tax point: each time you receive a payment issue a VAT invoice, whichever happens first

## 15.9 Property

### 15.9.1 Leasehold

If you receive periodic payments of rent or ground rent, the tax point is the date you receive a payment or the date of issue of a VAT invoice if the supply is standard-rated, whichever happens first.

This also applies to any premiums you may receive.

### **15.9.2 Freehold**

The basic tax point for a freehold sale is the date of the completion of the conveyance. An earlier tax point is created by:

- the issue of a VAT invoice (where the supply is standard-rated)
- receipt of all or part of the purchase price before the date of legal completion - but see paragraph 14.2.3 for more information on deposits

Under some contracts, further payments may become due dependent on some future event, such as the new owner obtaining planning permission. The tax point for what is a genuinely contingent element of the contract price is the receipt of the payment, or issue of a VAT invoice, whichever happens first.

### **15.9.3 Compulsory purchase**

Supplies of land made as a result of a compulsory purchase order are subject to the normal tax point rules. But, in cases where the amount to be paid has still to be agreed at the time the land is transferred to the purchasing authority, the tax point is the date payment is eventually received.

## **15.10 Zero-rated and exempt supplies**

You can work out the tax point for any zero-rated or exempt supply you make using the tax point rules set out in the preceding paragraphs in sections 14 and 15, though references to the issue of a VAT invoice do not apply to such supplies.

## **15.11 Supplies of credit (including credit facilities in hire-purchase transactions)**

A supply of credit is treated as taking place each time you receive a payment (for example, interest) for that supply, unless HMRC has approved a written application for an earlier date to be used.

The tax point for goods supplied on credit is worked out according to the general rules in paragraph 14.2.

## **15.12 Cross-border supplies of services**

If you receive cross-border supplies of services on which you're required to account for VAT as a reverse charge, the tax point is as follows:

- for a single supply of services it's the date the service is completed, or when it's paid for, if this is earlier
- for continuous supplies it's the end of each periodic payment or billing period, or the date of payment where this is made earlier than the end of the period to which it relates
- for continuous supplies that are not subject to payment or billing periods and for which no payment is made beforehand, it's the end of each calendar year

## **16. VAT invoices**

### **16.1 Introduction to VAT invoices**

The information on this subject is in 2 sections.

This section explains:

- the general VAT rules that apply to invoicing
- the information that a VAT invoice must show
- when you can issue simplified invoices

Section 17 gives information on some specific situations.

## **Other sources of information**

You will find it helpful to read Record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>).

If you're involved in trade with EU member states and your goods are in Northern Ireland, you should refer to The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>) for guidance on invoicing requirements and keeping records and accounts for those supplies.

The rules for keeping records for Intrastat are similar to records for VAT. For more information see Notice 60: Intrastat general guide (<https://www.gov.uk/government/publications/notice-60-intrastat-general-guide>).

## **16.2 General information about VAT invoices**

### **16.2.1 VAT invoices and when they should be issued**

Whenever you supply standard-rated or reduced-rated goods or services to another VAT-registered person, you must give that person a VAT invoice.

A VAT invoice is a document containing certain information about what you're supplying. Paragraph 16.3 sets out the information you need to show. Your customers need VAT invoices as evidence for reclaiming, as input tax, the VAT you have charged them.

You do not, therefore, have to issue VAT invoices for zero-rated supplies.

You do not need to issue VAT invoices for supplies to customers who are not VAT registered. In practice, this will probably mean issuing a VAT invoice to any customers who ask for one, as you will usually have no way of telling whether they're VAT registered or not. You do not have to check that a customer is VAT registered before issuing a VAT invoice.

### **16.2.2 Exceptions**

You must issue a VAT invoice to a registered person unless:

- your customer operates self-billing arrangements (see Self billing(VAT Notice 700/62) (<https://www.gov.uk/guidance/self-billing-notice-70062>)) or you issue authenticated receipts (see paragraph 17.4)
- you make a gift of goods on which VAT is due (see Business promotions (VAT Notice 700/7) (<https://www.gov.uk/guidance/business-promotions-and-vat-notice-7007>))

You must not issue VAT invoices for any goods sold under one of the VAT second-hand schemes (see paragraph 8.5). You will find details of the special invoices you have to use in the:

- Margin and Global Accounting Scheme VAT Notice 718 (<https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718>)
- Auctioneers' Scheme VAT Notice 718/2 (<https://www.gov.uk/guidance/auctioneers-scheme-for-vat-notice-7182>)
- Tour Operators Margin Scheme VAT Notice 709/5 (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>)

### 16.2.3 Time limits

Normal time limits

Unless you have	you must
<p>already issued a VAT invoice that has itself created a tax point, either:</p> <p>before the basic tax point (as explained in paragraph 14.2.2(a)), or</p> <p>under the 14 day rule (as explained in paragraph 14.2.2(b)) - including any extension allowed under that rule</p>	<p>normally issue a VAT invoice within 30 days of the tax point arising (sections 14 and 15 explain when a tax point arises)</p> <p>An invoice issued under the 30 day rule does not in itself create a tax point</p>

You can extend the 30 day time limit without applying to HMRC in the following cases:

- you're awaiting VAT invoices from your own suppliers or sub-contractors
- an extension of the 14 day limit has already been approved
- special accounting arrangements have been approved
- where you're newly registered but have not been notified of your VAT registration number - in this case you must issue the VAT invoice within 30 days from the date of advice of the VAT registration number

In all cases other than those mentioned above, or if you have any doubt, you must apply for an extension of the time limit by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>). For general queries call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

### 16.2.4 Invoices written in other languages

You may, if you wish, write your invoices in a language other than English. But you must be able to provide English translations of specific invoices within 30 days if asked to do so by a HMRC visiting officer.

## 16.3 Information required on a VAT invoice

### 16.3.1 General

You must show the following details on any VAT invoice you issue:

- a sequential number based on one or more series which uniquely identifies the document
- the time of the supply (tax point)
- the date of issue of the document (where different to the time of supply)
- your name, address and VAT registration number - you may issue invoices under a trading name, but you must show the name and address under which you're registered for VAT somewhere on the document
- the name and address of the person to whom the goods or services have been supplied (your customer)
- a description sufficient to identify the goods or services supplied
- for each description, the quantity of the goods or the extent of the services, the rate of VAT, and the amount payable excluding VAT - this can be expressed in any currency
- the gross total amount payable, excluding VAT - this can be expressed in any currency
- the rate of any cash discount offered
- the total amount of VAT chargeable - this must be expressed in sterling
- the unit price (see paragraph 16.3.2)

If you supply goods from Northern Ireland to a customer in an EU member state, then where the supply is zero-rated or exempt, your invoice must also show the reason for that.

### 16.3.2 Unit price

The requirement to include unit price on an invoice applies to countable goods or services. For services the countable element might be, for example:

- an hourly rate
- or a price for standard services

If the supply cannot be broken down into countable elements, then the total tax exclusive price will be the unit price. Additionally, the 'unit price' may not need to be shown at all if it is not:

- normally provided in a particular business sector
- required by the customer

### 16.3.3 Example of a VAT invoice

You will find an example of a simplified VAT invoice at paragraph 16.7 and in Record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>).

## 16.4 Invoicing in a foreign currency

If you issue VAT invoices in a foreign currency for supplies of goods or services that take place in the UK, you must convert the total amount of VAT payable into sterling (see paragraphs 16.3.1 and 16.6.2). Paragraph 7.6 tells you how to do this.

## 16.5 Invoicing for zero-rated or exempt supplies

<b>If</b>	<b>then</b>
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If	then
you issue a VAT invoice which includes supplies that are zero-rated or exempt	you must make sure that those items show clearly that there's no VAT payable and you must show a separate total for their values. You can, of course, issue separate invoices for zero-rated or exempt supplies. This may be a useful way of keeping the necessary records for your business (see paragraph 19.4.1)

## 16.6 Simplified VAT invoices and retailers' VAT invoices

### 16.6.1 Simplified VAT invoices

You can issue a simplified invoice if all of the following conditions exist:

- the value of the supply you are making is £250 or less
- your customer agrees

If your business is based in Northern Ireland your customer must not be from an EU member state  
The simplified invoice must include:

- your name, address and VAT registration number
- the time of supply (tax point)
- a description which identifies the goods or services supplied
- for each applicable VAT rate, the total amount payable, including VAT, and the VAT rate

### 16.6.2 Retailers' VAT invoices

If you make retail sales, you should give your customer a VAT invoice if asked for one. You may be liable to a financial penalty if you do not issue a VAT invoice when asked to do so by a taxable person.

But, you may use a retailers' VAT invoice if both of the following conditions exist:

- the transaction is for £250 or less
- If your business is based in Northern Ireland your customer must not be from an EU member state  
The retailers' VAT invoice must include:
  - your name, address and VAT registration number
  - the time of supply (tax point)
  - a description which identifies the goods or services supplied
  - for each applicable VAT rate, the total amount payable, including VAT, and the VAT rate

You must not include supplies which are exempt from VAT in this type of VAT invoice.

To work out the amount of VAT in a VAT-inclusive price, you have to multiply the price by the VAT fraction see paragraph 7.3.1.

You must issue a full VAT invoice if the transaction is for:

- more than £250
- £250 or less but the customer requests one

If you accept card payments, you may adapt the sales voucher you give to the cardholder at the time of the sale to serve as a retailers' VAT invoice.

The card voucher should show:

- your name and address
- the charge made, including VAT
- the date of sale

You must add to the voucher:

- your VAT registration number
- the rate of VAT
- a description of the goods or services supplied

If you issue an invoice or receipt in addition to the card voucher, only one of the documents may be in the form of a VAT invoice.

## 16.7 Example of a completed VAT invoice

Sales invoice No. 174

From: FOUNDATION TRADING (UK) LTD, BOWMAN STREET, CHESTER

VAT No: 987 6543 21

To: A. N. Other Ltd, 57 NORTH ROAD, LONDON, N12 5NA

Sale: Time of supply 16/01/12

Number	Description and price	Amount exclusive of VAT	VAT rate	VAT net
6	Radios, SW15 @ £25.20	151.20	20%	30.24
4	Record players @ £23.60	94.40	20%	18.88
6	Lamps T77@ £15.55	93.30	20%	18.66
		338.90	20%	67.78
	Delivery (net)	10.00	20%	2.00
	Total before VAT	348.90		
	VAT	69.78		
	Total	418.68		

For information on prompt payment discounts and how to show them on a VAT invoice, see paragraph 18.2.2.

## 16.8 Invalid invoice procedure

### **16.8.1 What to do if you hold an invalid VAT invoice**

Valid VAT invoices provide evidence for claiming input tax. An invalid invoice is one which falls short of any of the requirements set out in paragraphs 16.3 or 16.6. If you hold an invalid invoice the first thing you must do is go back to your supplier and request an invoice which meets these requirements. If you cannot do this, and can evidence why, you'll need to satisfy HMRC that the following conditions have been met:

- there's actually been a supply of goods or services
- that supply takes place in the UK
- it's taxable at the standard rate or reduced rate of VAT
- the supplier is a taxable person, that's someone either registered for VAT in the UK, or required to be registered
- the supply is made to the person claiming the input tax
- the recipient is a taxable person at the time the VAT was incurred
- the recipient intends to use the goods or services for business purposes

You must also hold other evidence to show that the supply or transaction occurred.

### **16.8.2 When and how HMRC will exercise its discretion**

HMRC's discretion to allow a claim for input tax can only be used when there's sufficient evidence to satisfy HMRC that a supply has taken place (see paragraph 16.8.1).

Where it's satisfied that the business has taken reasonable steps to comply with the legislation, and that the supply has taken place, HMRC may consider exercising its discretion. But, where a business has systematically failed to obtain a valid VAT invoice HMRC will not consider exercising its discretion.

Where a supply has taken place, but the invoice to support this is invalid, HMRC may exercise its discretion and allow a claim for input tax. But this will depend on the evidence held to show that the supply or transaction occurred and that the supply has been made to the person claiming the input tax.

### **16.8.3 What evidence you'll need to be provide**

Your evidence should show that a supply occurred on which VAT was charged. There's no prescriptive list of the type of evidence required, as circumstances will vary. Suitable evidence might include:

- bank statements clearly showing payment of the supply to the supplier
- purchase orders
- evidence of how you identified your supplier and your negotiations with them
- contracts between you and your supplier
- documents evidencing the transportation, storage or insurance of the goods
- any other documents that show a supply took place between you and your supplier

This list is not exhaustive.

## **17. VAT invoices for particular situations**

## 17.1 VAT invoices for petrol and diesel

If the VAT-inclusive charge for a sale of petrol or diesel is	then you may
£250 or less	issue a less detailed VAT invoice (see paragraph 16.6.1)
More than £250	adapt the information required for a full VAT invoice (see paragraph 16.3) as follows:  - show the registration number of the vehicle instead of the customer's name and address, and  - you need not show the number of gallons or litres supplied, or the type of supply

## 17.2 Cash and carry wholesalers

If you're a cash and carry wholesaler, you can adapt the till rolls produced by your cash registers to serve as VAT invoices, provided that you meet all the following conditions:

- you use a product coding system which clearly identifies the different classes of goods sold - the system should be based on at least 2 digits, possibly 3 if you sell a wide range of products
- you must prepare and maintain product code lists and provide all your VAT-registered customers with up to date copies of the lists
- you must make sure that the till roll includes all the details required for a full VAT invoice (see paragraph 16.3)
- you must keep a copy of till rolls and product code lists for 6 years (unless HMRC has agreed that you need only keep them for a shorter period)

If you cannot meet these conditions, you must issue a full VAT invoice when a customer asks for one, showing all the details required by paragraph 16.3.

## 17.3 Pro-forma invoices

Pro-forma invoices are often used to offer goods or services to potential customers. Such an offer may or may not be taken up, and the goods or services will not be supplied unless payment is received.

If you use pro-forma invoices in this way, they cannot be used as evidence to reclaim input tax, even if they show all the details required for a VAT invoice. You should make sure that they're clearly marked 'this is not a VAT invoice'.

If after you've issued such an invoice, you actually supply the goods or services to your customer, or receive payment, then you must issue a proper VAT invoice.

## 17.4 Self-billing and authenticated receipts

### 17.4.1 Self-billing

Under a self-billing arrangement, the customer makes out VAT invoices for a VAT-registered supplier and sends a copy to the supplier with the payment. VAT self-billed invoices must include the reference 'self billing'.

If you want to use a self-billing system for supplies made by or to you, you must meet the conditions set out in Self billing (VAT Notice 700/62) (<https://www.gov.uk/guidance/self-billing-notice-70062>).

#### **17.4.2 Authenticated receipts**

You should not confuse the use of authenticated receipts with self-billing.

Authenticated receipts are used in the construction industry in place of VAT invoices for supplies of services, or of goods and services, made under contracts which provide for periodic payments to be made.

The receipts are only valid for VAT purposes if they:

- contain all the information detailed in paragraph 16.3
- are authenticated - that is, signed by the supplier and no normal VAT invoice or self-billed document is issued for the supplies

You can find more about the use of authenticated receipts in VAT Notice 708: buildings and construction (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>).

### **17.5 Calculation of VAT on invoices - rounding of amounts**

Note, the concession in this paragraph to round down amounts of VAT is designed for invoice traders and applies only where the VAT charged to customers and the VAT paid to HMRC is the same. As a general rule, the concession to round down is not appropriate to retailers, who should see paragraph 17.6.

You may round down the total VAT payable on all goods and services shown on a VAT invoice to a whole penny. You can ignore any fraction of a penny.

#### **17.5.1 Calculation based on lines of goods or services**

If you wish to work out the VAT separately for a line of goods or services, which are included with other goods or services in the same invoice, you should calculate the separate amounts of VAT by rounding in one of the following ways:

- down to the nearest 0.1p - for example, 86.76p would be rounded down to 86.7p
- to the nearest 1p or 0.5p - for example, 86.76p would be rounded up to 87p

Whatever you decide, you must be consistent.

The final total amount of VAT payable may be rounded down to the nearest whole penny.

#### **17.5.2 Calculation based on tax per unit or per article**

If you want to work out the VAT per unit or per article (for example, for use in price lists), you must work out the amounts in one of the following ways:

- 4 digits after the decimal point and then round to 3 digits - for example, if the VAT is £0.0024, it should be rounded to £0.002 (0.2p)
- the nearest 1p or 0.5p - if you decide to do this, you must not round the VAT down to 'nil' on any unit or article that is liable at the standard or reduced rate, for example, if the VAT is £0.0024 it should be rounded to £0.005 (0.5p)

## 17.6 Calculation of VAT at retailers

Most retailers account for VAT using a retail scheme. If that's the way you account for VAT, this paragraph does not affect you.

But if you calculate VAT at line level or invoice level, you must not round the VAT figure down. But, you may round (up and down) each VAT calculation.

## 17.7 Electronic invoicing

Invoices can be issued or received in an electronic format rather than on paper. This is known as electronic invoicing. Electronic invoicing can take a variety of forms. The most common forms are:

- the transmission of a structured electronic invoice, for example XML format, through an Electronic Data Interchange service (EDI)
- a PDF document sent by email

Whatever form an electronic VAT invoice takes, it must include all the information that's required on a paper VAT invoice.

If you want to send or receive electronic invoices, you will have to meet the conditions for electronic transmission which are listed in Electronic invoicing (VAT Notice 700/63) (<https://www.gov.uk/guidance/electronic-invoicing-notice-70063>).

Electronic invoices are acceptable as evidence for input tax deduction, subject to the normal rules, providing the following can be ensured:

- authenticity of the origin
- integrity of the data
- legibility of the content

If you are not intending to use:

- advanced electronic signature
- Electronic Data Interchange (EDI) systems

You may find it helpful to seek advice by calling the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) before you start to use electronic invoicing.

## 17.8 Using a third party to transmit invoices

You may, if you wish, 'outsource' the physical responsibility for the issuing of your sales invoices to a third party. But you must remember that all the legal obligations relating to the contents, storage and production of the invoices raised remain with you.

You can find out more about the conditions you will need to meet if you're using a third party to issue your invoices electronically at section 8 of Electronic invoicing (VAT Notice 700/63) (<https://www.gov.uk/guidance/electronic-invoicing-notice-70063#electronic-invoices-issued-by-customers-or-third-parties>).

## 18. Credits and debts

### 18.1 Introduction to credits and debts

This section tells you what to do if you:

- allow a credit or contingent discount
- offer prompt payment discounts
- replace returned goods
- deal with goods which are sold to satisfy a debt
- wish to claim relief from VAT on a bad debt

### 18.2 Credits and contingent discounts

#### 18.2.1 Introduction

When you allow a credit or contingent discount to a customer who can reclaim all the tax on your supply as input tax, you do not have to adjust the original VAT charge provided both you and your customer agree not to do so. Otherwise, you should both adjust the original VAT charge. You should issue a credit note to your customer and keep a copy.

But, you must not issue a credit note if you're using a VAT MOSS return to make your declarations and payments on business to consumer digital services. This is because corrections can only be made to the original return and not by making an amendment to a later one.

Read [How to correct VAT errors and make adjustments or claims \(VAT Notice 700/45\)](https://www.gov.uk/guidance/how-to-correct-vat-errors-and-make-adjustments-or-claims-vat-notice-70045) (<https://www.gov.uk/guidance/how-to-correct-vat-errors-and-make-adjustments-or-claims-vat-notice-70045>) for more information on how to correct VAT errors and make adjustments or claims.

#### 18.2.2 Accounting for prompt payment discounts

If the discount is taken up within the specified time you may adjust the consideration and amount of VAT accounted for by issuing a credit note. If you choose not to use a credit note, the original invoice must have the following information:

- the discount terms (which must include, but need not be limited to, the time by which the discounted price must be paid)
- a statement that the customer can only recover as input tax the VAT paid to the supplier

HMRC recommends businesses use the following wording on the invoice: 'A discount of X% of the full price applies if payment is made within Y days of the invoice date. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid'.

In the absence of a credit note, the original invoice, together with other records which show the consideration received, such as a bank statement, provide the evidence necessary to support the VAT adjustment.

### 18.2.3 Valid credit notes

To be valid for VAT purposes a credit note must:

- reflect a genuine mistake or overcharge or an agreed reduction in the value of the supply, and be issued within 14 days of the refund payment being made to the customer
- give value to the customer, that is, represent a genuine entitlement (or claim) on the part of the customer for the amount overcharged either to be refunded or offset against the value of future supplies
- show clearly all the following details:
  - the identifying number and date of issue
  - the name, address and registration number of the supplier
  - the name and address of the customer
  - a description which identifies the goods or services for which credit is being claimed or allowed
  - the quantity and amount for each description
  - the total amount credited, excluding VAT
  - the rate and amount of VAT credited (expressed in sterling)
  - the number and date of the original VAT invoice or invoices relating to the supply - if you cannot do this (for example, because returned goods cannot be identified with a particular invoice), you must be able to satisfy HMRC by other means that you accounted for VAT on the original supply

If credit notes are issued without a VAT adjustment, they should state 'This is not a credit note for VAT'. Even if you and your customer decides not to adjust the VAT on credit notes which pass between you, you will still need to adjust your records of outputs and inputs in order to complete your VAT Return. Paragraph 19.5 explains how you should record any credits allowed. If you issue invoices to persons in an EU member state, credit or debit notes which amend those invoices must contain all the information required to be included on an invoice.

### 18.2.4 Valid debit notes

To be valid for VAT purposes a debit note must:

- reflect a genuine mistake or undercharge or an agreed increase in the value of the supply, and be issued within 14 days of the increase being agreed between the supplier and the customer
- show clearly all of the following details, the:
  - identifying number and date of issue
  - name, address and registration number of the supplier
  - name and address of the customer
  - identifying number and date of issue of the VAT invoice or invoices relating to the supply for which there is an increase in price
  - a description sufficient to identify the goods or services supplied to which the increase in price applies
  - the amount of the increase in price, excluding VAT
  - the rate and the amount of VAT debited (expressed in sterling)



Credits for zero-rated or exempt supplies included in a credit or debit note must be totalled separately and the note must show clearly that no VAT credit has been allowed for them.

### **18.2.5 Tax rates**

The rate of VAT to be used for a credit or debit note is the one which was in force at the time of the tax point of the original supply.

Section 30 tells you what to do if you have to issue a credit note because of a change in tax rate.

### **18.2.6 Accounting for credit or debit notes you issue or receive**

When you issue a credit note or receive a debit note, you must adjust:

- the records of the taxable supplies you have made
- your output tax

The accounts or supporting documents must make clear the nature of the adjustment and the reason for it. If you have charged or claimed an incorrect amount of VAT and have already declared it on your VAT Return, the remainder of this section does not apply. This is because you can only correct an error in your declaration by adopting the appropriate method of error correction detailed in section 4 of How to correct VAT errors and make adjustments or claims (VAT Notice 700/45) (<https://www.gov.uk/guidance/how-to-correct-vat-errors-and-make-adjustments-or-claims-vat-notice-70045#VAT-errors-submitted>).

Where the adjustment is not in respect of an error in the amount of VAT declared on a VAT Return, you should make any VAT adjustment arising from the issue or receipt of a credit or debit note in the VAT account in the accounting period in which the increase in price or decrease in price occurs.

For decreases in price this will be the accounting period where the refunded amount is paid to the customer. For increases in price this will be when the supplier and customer reach agreement over the increased value of the supply.

If the VAT credits you allow your customers exceed the VAT you charged on your sales in any tax period, you will have a minus figure to enter into the output tax box (box 1) of your VAT Return. You must make it clear that it is a minus figure by:

- inserting a minus sign before the figure if you use an electronic return (see also paragraph 20.2.2)
- writing it in brackets if you use a paper VAT Return

### **18.2.7 Bankruptcy, insolvent liquidation and administrative receivership**

The tax point for credit or debit notes issued by - or on behalf of - insolvent traders, is the date on which the increase in consideration or decrease in consideration occurred.

### **18.2.8 Cancelled registrations**

The tax point for any credit or debit note you issue or receive after the date of cancellation of your registration is the date on which the increase in consideration or decrease in consideration occurs. If this happens after you have already submitted your final VAT Return see section 4 of How to correct VAT errors and make adjustments or claims (VAT Notice 700/45) (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims>).

HMRC will not make any repayment where credit or debit notes do not meet the conditions at paragraph 18.2.3.

### 18.3 Replacement of returned goods

The following rules apply when you replace returned goods.

<b>If</b>	<b>then you may either</b>
you replace returned goods with similar goods	let the original VAT charge stand, or cancel it (by issuing a credit note if a VAT invoice has previously been issued) and charge VAT on the replacement goods

<b>If</b>	<b>then</b>
the original VAT charge is allowed to stand	you need not account for VAT on the replacement goods, provided that they're supplied to the customer free of charge

<b>If the replacement goods are supplied at a price that is</b>	<b>then you</b>
lower than the original goods	may reduce the VAT charge by issuing a credit note, provided that a VAT invoice has previously been issued
higher than the original goods	must account for the additional VAT

### 18.4 Goods sold in satisfaction of a debt

A supply takes place when a registered person's business assets - including property - are sold in satisfaction of a debt. When this is a taxable supply, the proceeds of the sale are treated as tax-inclusive and tax must be accounted for as follows.

#### 18.4.1 Goods sold by auction

Within 21 days, the auctioneer must send:

- the tax and a statement on form VAT 833: statement of VAT on goods sold in satisfaction of a debt (<https://www.gov.uk/government/publications/vat-statement-of-vat-on-goods-sold-in-satisfaction-of-a-debt-vat833>) to the address on the form
- a copy of form VAT 833 (<https://www.gov.uk/government/publications/vat-statement-of-vat-on-goods-sold-in-satisfaction-of-a-debt-vat833>) to the debtor

The auctioneer must also issue a VAT invoice containing the information in paragraph 16.3 but giving the name, address and VAT registration number of the supplier. The auctioneer need not be registered to issue this and should not ask the supplier for a VAT invoice.

#### 18.4.2 Goods not sold by auction

The seller (the person with the right to sell the goods) must account for the tax and issue the documents described in paragraph 18.4.1.

### **18.4.3 Exceptions**

This procedure does not normally apply to sales by:

- liquidators: as the company in liquidation remains in being, although controlled by the liquidator, sales are made by the company - the company must account for the tax in the normal way
- trustees in bankruptcy: a bankrupt person's property is vested in the trustee, who then carries on the business in their own right and must account for the tax in the normal way
- administrative receivers: an administrative receiver usually acts as the agent of the company, if so, tax is accounted for in the normal way - if the administrative receiver is not the company's agent, the procedure at paragraph 18.4.1 must be used

## **18.5 Relief from VAT on bad debts**

You may be able to claim relief from VAT on bad debts provided various conditions are met. For more information, including an explanation of the conditions, see Relief from VAT on bad debts (VAT Notice 700/18) (<https://www.gov.uk/guidance/relief-from-vat-on-bad-debts-notice-70018>).

## **19. Records and accounts**

### **19.1 Introduction to records and accounts**

All taxable persons must keep and preserve certain records and accounts.

This VAT record-keeping requirements that anyone who is registered for VAT must comply with includes:

- the VAT account
- what records must be kept
- maintaining and preserving records

For more information see Record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>).

There are several other important sources of information:

#### **EU trade**

If you're involved in trade of goods from Northern Ireland with EU member states you should see The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>) for guidance on invoicing requirements and keeping records and accounts for those supplies.

#### **Intrastat**

The rules for keeping records for Intrastat are similar to those for VAT. You will find information about them in Notice 60: Intrastat general guide (<https://www.gov.uk/government/publications/notice-60-intrastat-general-guide>).

## **Imports and exports**

If you're involved in trade with countries outside the UK and with non-EU countries from Northern Ireland you should see Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>) and Goods exported from the UK (VAT Notice 703) (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>).

## **Retail schemes**

If you use a retail scheme you should read this section with the rules for your scheme. For more information see Goods exported from the UK (VAT Notice 703) (<https://www.gov.uk/guidance/retail-schemes-notice-727>) and the individual scheme notices.

## **Cash accounting**

If you account for VAT on the basis of cash received and paid under the Cash Accounting Scheme, you should read this section with the rules set out in Cash accounting (VAT Notice 731) (<https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731>).

## **Second-hand schemes**

If you use one of the VAT second-hand schemes, there are special rules about record keeping and the retention of records. See The Margin and Global Accounting Scheme (VAT Notice 718) (<https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718>), The Margin and Global Accounting Scheme (VAT Notice 718) (<https://www.gov.uk/guidance/the-margin-scheme-on-second-hand-cars-and-other-vehicles-vat-notice-7181>) and the Auctioneers' Scheme (VAT Notice 718/2) (<https://www.gov.uk/guidance/auctioneers-scheme-for-vat-notice-7182>).

## **Partly exempt businesses**

If you cannot reclaim all your input tax because of the partial exemption rules (see paragraph 13.1), you should also look at Partial exemption (VAT Notice 706) (<https://www.gov.uk/guidance/partial-exemption-vat-notice-706>). This will tell you about any adjustments that you'll have to make to your records.

## **Capital goods**

If you acquire or create a capital item for use in your business (see paragraph 13.2), you should look at Capital goods scheme (VAT Notice 706/2) (<https://www.gov.uk/guidance/capital-goods-scheme-notice-7062>). This will tell you what records you need to keep in case a Capital Goods Scheme adjustment becomes necessary.

## **19.2 Accounting scheme**

There are a number of accounting schemes designed to help eligible businesses account for VAT. Each has its own benefits and you need to decide which, if any, is suitable for you.

### **19.2.1 Cash Accounting Scheme**

The scheme allows you to account for VAT on the basis of payments received and made, rather than tax invoices issued and received. It's particularly beneficial if you give your customers lengthy periods of credit or if you have a high level of bad debts. You can use this scheme if the annual value of your taxable supplies (excluding VAT) is not more than £1,350,000.

For more information see Cash accounting (VAT Notice 731) (<https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731>).

### **19.2.2 Annual Accounting Scheme**

The scheme is open to businesses who expect to have taxable supplies of up to £1,350,000. It allows you to submit one VAT Return a year instead of the usual 4. You'll need to make interim payments by electronic means based on your actual or estimated annual VAT liability.

If you use the ~~VAT MOSS~~ online service to submit your returns and payments, you're not eligible to use the annual accounting scheme.

For more information see Annual accounting (VAT Notice 732) (<https://www.gov.uk/guidance/vat-annual-accounting-notice-732>).

### **19.2.3 Flat Rate Scheme**

The scheme is designed to simplify your records of sales and purchases. It allows you to apply a fixed flat-rate percentage to your gross turnover to arrive at the VAT due. It's available to businesses with a VAT-exclusive annual taxable turnover of up to £150,000 but you need to apply and be approved by HMRC before you use it.

It will not benefit every business so, before you apply, you should see VAT Notice 733: Flat Rate Scheme for small businesses (<https://www.gov.uk/government/publications/vat-notice-733-flat-rate-scheme-for-small-businesses>) for more information.

### **19.2.4 Account for import VAT on your VAT Return (also called postponed VAT accounting)**

From 1 January 2021, if your business is registered for VAT in the UK, you'll be able to account for import VAT on your VAT Return for goods you import into:

- Great Britain (England, Scotland and Wales) from anywhere outside the UK
- Northern Ireland from outside the UK and EU

There will be no changes to the treatment of VAT or how you account for it for the movement of goods between Northern Ireland and the EU.

You do not need any approval to account for import VAT on your VAT Return.

You can account for import VAT on your VAT Return if:

- the goods you import are for use in your business
- you include your VAT registration number on your customs declaration

You must account for import VAT on your VAT return if you import goods that are not controlled into Great Britain from the EU between 1 January and 30 June 2021 and you either:

- delay your customs declaration delaying declarations for EU goods brought into Great Britain from 1 January 2021 (<https://www.gov.uk/guidance/declaring-goods-brought-into-great-britain-from-the-eu-from-1-january-2021>)
- use a simplified customs declaration apply to use simplified declarations for imports (<https://www.gov.uk/guidance/using-simplified-declarations-for-imports>) to make a declaration in your own records

You must make sure that when you complete the supplementary declaration you select that you'll be accounting for import VAT on your VAT Return.

For more information and to ensure you complete your VAT return correctly, see [Check when you can account for import VAT on your VAT Return from 1 January 2021](https://www.gov.uk/guidance/check-when-you-can-account-for-import-vat-on-your-vat-return) (<https://www.gov.uk/guidance/check-when-you-can-account-for-import-vat-on-your-vat-return>).

### **19.3 Keeping copies of VAT invoices**

Unless you make retail supplies and issue less detailed VAT invoices (see paragraph 16.6.1) you must keep a copy of all VAT invoices that you issue.

If you're a cash and carry wholesaler (see paragraph 17.2) you must keep a copy of all till rolls and product code lists.

### **19.4 Recording supplies you make and working out your output tax**

#### **19.4.1 General**

Note: this sub-paragraph does not apply to supplies that are dealt with under a retail scheme.

You must keep a record of all the supplies that you make in the course of your business. This includes any zero-rated or exempt supplies.

This record must contain all the information that must be shown on VAT invoices (see paragraph 16.3). If you issue invoices which give all the necessary details then, as long as you keep copies, you'll only need to prepare a summary of your invoices.

This should be in the same order as your copy invoices and should allow you to produce separate totals for each tax period of the:

- (a) amount of VAT chargeable on your supplies. If you have to make an adjustment for credits you have allowed your customers (see paragraph 18.2), you should deduct the VAT on these credits from the amount of VAT PAYABLE in your VAT account (see paragraph 19.11)
- (b) VAT-exclusive value of your standard-rated, reduced-rated and zero-rated supplies
- (c) value of any exempt supplies you have made
- (d) amount of VAT due on any: goods you import by post - other than by Data post - with a value of £2,000 or less (see also paragraph 19.7.1) (b)) - services supplied in the UK which you receive from abroad
- (e) amount of VAT due on imports subject to postponed VAT accounting (PVA). You'll be able to get this information from your online monthly statement, or if you have delayed your customs declaration, you must estimate the amount. You can find out how to estimate import VAT on your VAT Return and get access to your statements here [Complete your VAT Return to account for import VAT from 1 January 2021](https://www.gov.uk/guidance/complete-your-vat-return-to-account-for-import-vat) (<https://www.gov.uk/guidance/complete-your-vat-return-to-account-for-import-vat>) (see also paragraph 19.2.4 (Account for import VAT on your VAT Return (also called postponed VAT accounting))
- (f) amount of VAT due on imports not subject to PVA. See [Notice Imports (VAT Notice 702), section 8] (<https://www.gov.uk/guidance/imports-and-vat-notice-702#section8>)

You should carry this amount forward to the VAT payable side of your VAT account (see paragraph 19.11).

Under (b) and (c) you should not make any deduction for cash discounts but you should deduct any credits you have allowed in the tax period.

You must also keep a record of:

- credits allowed to your customers for all supplies that you make (see paragraph 19.5)
- goods you send out on sale or return, approval or similar terms, showing their respective tax points (see paragraph 14.4)
- special transactions you're involved in as described in paragraph 19.4.2 and paragraph 19.4.3.

### 19.4.2 Goods given away or put to private or other non-business use

If you give away, or put to private or other non-business use, goods which you have acquired or produced in the course of your business, VAT is due on cost and you need record only the:

- date that the goods were given away, taken, or set aside for non-business use
- description and quantity
- VAT-exclusive cost
- rate and amount of VAT chargeable

### 19.4.3 Self-supplies

If you	and either	then you should
are a motor manufacturer, vehicle converter or dealer	and use motor cars you have produced or acquired in the course of your business (see paragraph 9.2)	record for each car the: <ul style="list-style-type: none"> <li>- tax point</li> <li>- value on which VAT is chargeable</li> <li>- rate and amount of VAT chargeable (see VAT Notice 700/64: motoring expenses (<a href="https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064">https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064</a>))</li> </ul>
are partly exempt	and self-supply certain printed matter	follow the rules in Notice 706: partial exemption ( <a href="https://www.gov.uk/guidance/partial-exemption-vat-notice-706">https://www.gov.uk/guidance/partial-exemption-vat-notice-706</a> )
use your own labour to construct a building or civil engineering work	or to increase the floor area of an existing building by 10% or more	follow the rules in VAT Notice 708: buildings and construction ( <a href="https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction">https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction</a> )

### 19.5 Record of credits allowed to customers

If you use a retail scheme, this paragraph applies only where the credit involves a VAT invoice.

You must keep a record of all credits allowed to your customers for supplies that you make. This includes zero-rated and exempt supplies.

If	then your record must
----	-----------------------

If	then your record must
a credit relates to a VAT invoice	either show: <ul style="list-style-type: none"> <li>- the details listed in paragraph 18.2</li> <li>- clearly where those details are (for example, by cross-reference to filed copies of credit notes)</li> </ul>
you allow credit for a zero-rated or exempt supply	show the date and amount of the credit and whether it was for an export, a zero-rated supply in the UK or an exempt supply. If filed copies of credit notes provide a complete and easily accessible record then you need not keep a separate record for VAT purposes

See paragraph 18.2.5 for information on how to account for credit or debit notes you issue or receive.

You must not issue a credit note if you're using a ~~VAT MOSS~~ return to make your declarations and payments on business to consumer digital services. This is because corrections can only be made to the original return and not by making an amendment to a later return.

## 19.6 Evidence of input tax

### 19.6.1 General

You must keep all invoices for standard-rated, reduced-rated and zero-rated supplies that you receive for your business. They must be kept in such a way that, given the invoice date and the supplier's name, they can be easily presented to HMRC on request.

You cannot use an invoice which is marked 'pro-forma' or 'this is not a tax invoice' as evidence for reclaiming input tax (see paragraph 17.3).

Only a VAT-registered person can issue a VAT invoice. There are financial penalties for the unauthorised issue of VAT invoices. If you receive an invoice from an unregistered person and knowingly use it to reclaim VAT, you're committing an offence.

You should have no problem finding out from your suppliers whether they're registered. If you're in any doubt about a supplier's VAT registration number you can check the validity of a VAT number issued by any EU member state. Alternatively you can call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

If you're unsure about the validity of a supplier's VAT invoice see paragraph 16.8 for more information.

In your own interest, you should obtain and retain VAT invoices. Without them, you may not be able to reclaim VAT you have been charged.

### 19.6.2 Purchases from cash and carry wholesalers

If you buy goods from a cash and carry wholesaler you'll need VAT invoices to support your claims for input tax.

If the cash and carry wholesaler provides VAT invoices in the form of till rolls and the goods are represented only by product code numbers (see paragraph 17.2), you must get an up to date copy of the wholesaler's product code list and keep it with the till roll invoices, so that both are readily



available for inspection when required.

### **19.6.3 Imported goods and goods removed from warehouse**

You or your agent should make sure that official evidence is obtained, where required, of VAT chargeable on imported goods and goods removed from warehouse. See Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>).

This evidence serves the same purpose as a VAT invoice from a registered UK supplier. Without it you may not be able to reclaim tax you have been charged.

The evidence should be annexed or cross-referenced to the relevant invoice from your supplier and both should be retained. For goods acquired into Northern Ireland from a VAT-registered person in an EU member state, you should hold the relevant invoice from the person supplying the goods.

### **19.6.4 Services received from abroad**

If you receive from abroad a supply of any services which are supplied in the UK, you should hold the relevant invoice from the person supplying the services.

### **19.6.5 Other circumstances**

If you're treating as input tax the VAT on goods or services supplied to you:

(a) the invoice can be made out to an employee for subsistence expenses mentioned in paragraph 12.1 and for petrol (see Motoring expenses (VAT Notice 700/64) (<https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>))

(b) you do not need a VAT invoice for some types of supply if your total expenditure for each taxable supply was £25 or less (including VAT).

You must be sure that the supplier was registered for VAT. If in doubt, you can check validity of a VAT number issued by any EU member state. Alternatively you can call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

This applies to:

- phone calls from public or private phones
- purchases through coin-operated machines
- car-park charges (on-street parking meters are not subject to VAT)
- a single or return toll charge paid at the tollbooth

For toll charges but, you need to obtain a VAT invoice, irrespective of the price of each individual toll if you:

- purchase a book of toll tickets
- use a tolled road, bridge or crossing under an arrangement where you pay in advance for your journeys, or you are invoiced in arrears for your journeys, or a combination of the two (for example, if you use an electronic tag or if you are an account customer)

Tolls operated entirely by a public authority under a special legal regime are outside the scope of VAT (for more information see VATGPB8865 of the VAT Government and Public Bodies manual (<https://www.gov.uk/hmrc-internal-manuals/vat-government-and-public-bodies/vatgpb8865>)).

## 19.7 Recording supplies you receive and working out your input tax

### 19.7.1 General

You must keep a record of all taxable supplies that you receive for your business. This includes any zero-rated supplies you have received.

You must keep this record in such a way that the details of each transaction and the amount of VAT are entered in full or can be easily found by referring to the:

- supplier's invoice (see paragraphs 19.6.1 and 19.6.2)
- evidence of VAT on goods imported or removed from warehouse (see paragraph 19.6.3)
- evidence of services received from abroad (see paragraph 19.6.4)

If you have received invoices and so on which give all the necessary details, and they're kept in such a way that they can be easily produced if required, then your record need be no more than a summary of these documents in the same order as you keep them.

The summary must allow you to produce separate totals for each tax period of the amount of VAT:

(a) you have been charged on goods and services you have received - including VAT paid or subject to postponed accounting at import or on removal from warehouse. If you have to make an adjustment for credits received from suppliers in the tax period (see paragraph 18.2), you should deduct VAT on these credits

(b) due on:

- goods imported by post - other than by Data post - with a value of £2,000 or less (see also paragraph 19.4.1 (d))
- any services which you receive from abroad which are supplied in the UK

This tax can be reclaimed as input tax subject to the normal rules. You should carry forward the total amount of deductible input tax ((a) plus (b)) less any non-deductible items - see paragraph 19.7.2 to the VAT deductible side of your VAT account (see paragraph 19.11).

(c) The VAT-exclusive value of all supplies you have received. This includes goods you have imported or removed from a tax warehouse and any of the services which you have received from abroad which are supplied in the UK. You should not make any deduction for cash discounts but you should deduct all credits you received from suppliers in the tax period.

For example, an add-list would be acceptable as a summary if it shows tax and values separately itemised in the order in which you keep the VAT invoices. Alternatively, you may find the method described in paragraph 19.7.3 more suitable.

No matter how you keep your records they must show the above totals.

You must also keep a record of:

- credits received from suppliers for all taxable supplies you receive (see paragraph 19.8)
- supplies you receive for your business on which VAT is not deductible (see paragraph 19.7.2)

If you're partly exempt (paragraph 13.1) see Partial exemption (VAT Notice 706) (<https://www.gov.uk/guidance/partial-exemption-vat-notice-706>). If you acquire or create a capital item for use in your business (paragraph 13.2), see Capital goods scheme (VAT Notice 706/2)

(<https://www.gov.uk/guidance/capital-goods-scheme-notice-7062>). This will tell you what records you need to keep in case a Capital Goods Scheme adjustment becomes necessary.

### 19.7.2 Non-deductible items

You must keep a record of the VAT invoices you receive for any goods or services on which you cannot reclaim VAT see paragraph 10.3. But you must not include the VAT on those invoices in your input tax claim for the period.

### 19.7.3 Cashbook accounting

If it's your normal accounting practice to claim input tax according to the time when you pay your suppliers, you may find it convenient to adapt your cashbook payments record to serve also as a record of the taxable supplies you receive - for example, by including an extra 'tax' column.

If you change to this method from another method of accounting, you must exclude any VAT which you have already claimed on a previous return.

If you use a retail scheme, your cashbook figures can also be used to work out the value of the goods you receive for resale provided you:

- subtract amounts you owe suppliers at the beginning of a tax period
- add on amounts you owe suppliers at the end of the tax period

## 19.8 Record of credits received from suppliers

You must keep a record of all credits you receive from your suppliers for any taxable supplies that you receive. This includes standard-rated, reduced-rated and zero-rated supplies.

If a credit relates to	then
a VAT invoice	your record must either: show the details listed in paragraph 18.2 or show clearly where these details can be found (for example, by cross-reference to filed credit notes)
a zero-rated supply	your record need only show the date and amount of credit. If filed credit notes provide a complete and easily accessible record, you need not keep a separate record for VAT purposes
deductible input tax and you have to make a tax adjustment (see paragraph 18.2)	you must adjust your records of supplies you receive and your input tax (see paragraph 19.7.1(a)). Whatever method you use to do this, the nature of the adjustment and the reason for it must be clear from the accounts or supporting documents

If the VAT credits you receive from your suppliers exceed the VAT you were charged on your purchases in any period, you will have a minus figure to enter in the input tax box (box 4) of your VAT Return. You must make it clear that it is a minus figure by:

- inserting a minus sign before the figure if you use an electronic return (see also paragraph 20.2.2)
- writing it in brackets if you use a paper VAT Return

## 19.9 How to adjust errors on VAT invoices

<b>If the amount of VAT on a VAT invoice you have issued is</b>	<b>then you must account for the</b>
higher than the amount properly due	higher amount in your records, unless you correct the error with your customer by issuing a credit note
lower than the amount properly due	correct amount of VAT due whether or not you correct the error with your customer (for example, by issuing a supplementary invoice for the amount undercharged)

If the amount of VAT shown on a VAT invoice is too low and you're unwilling or unable to recover the whole of the balance due from your customer, then you'll have to make a tax adjustment. The amount of the tax adjustment can be calculated from the total tax-inclusive amount actually charged.

If you correct an error in the amount of VAT chargeable with your customer (for example, by issuing a credit note or supplementary invoice to the customer), the correction should be allowed to work through your accounting system. It should then be reflected in an adjusted total of output tax due from you, at the end of the tax period in which the error was corrected.

But, you must not issue a credit note if you're using a **VAT MOSS** return to make your declarations and payments on business to consumer digital services. This is because corrections can only be made to the original return and not by making an amendment to a later return.

If you issue a credit note or supplementary invoice to correct an error in a VAT invoice, it should bear a reference to the number and date of that VAT invoice and show clearly both the correct and incorrect amounts of VAT.

## 19.10 How to correct errors on previous returns

Generally, you can only correct errors in accounting periods ending in the last 4 years. For more information on time limits and how to correct errors see [How to correct VAT errors and make adjustments or claims \(VAT Notice 700/45\)](https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims) (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims>).

But, if you're using a **VAT MOSS** return to make your declarations and payments on business to consumer supplies of digital services, you can correct your return up to 3 years and 20 days after the end of the relevant period.

### Interest and penalties

HMRC may charge you interest in certain circumstances and may also charge you a penalty. For more information see:

- HMRC compliance checks factsheets: penalties (<https://www.gov.uk/government/collections/hm-revenue-and-customs-compliance-checks-factsheets>)
- section 27 or VAT Notice 700/45: how to correct VAT errors and make adjustments or claims (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims>)

- misdeclaration penalty and repeated misdeclaration VAT Notice 700/42 (<https://www.gov.uk/guidance/misdeclaration-and-repeat-misdeclaration-penalties-for-vat-notice-70042>)
- default interest VAT Notice 700/43 (<https://www.gov.uk/guidance/default-interest-notice-70043>)

## 19.11 VAT account

For each tax period you must keep a summary of the totals of your output tax and input tax. This is your VAT account and it will help you to fill in your VAT Return. There's no set format for a VAT account as long as it contains the necessary information contained in Record keeping (VAT Notice 700/21) (<https://www.gov.uk/guidance/record-keeping-for-vat-notice-70021>).

## 19.12 Claims where a declaration or assessment has included too much output tax

If you have overdeclared output VAT or HMRC has included too much output VAT in an assessment, you can make a claim for a credit.

There's a 4-year time limit on making a claim. The relevant date from which this time limit starts will depend on the circumstances giving rise to the claim.

HMRC will not credit or repay any amount where to do so would result in your unjust enrichment - for example, where you passed the tax on to your customers but are unwilling, or unable, to pass on to them the benefit of the repayment.

You can call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) if you are not sure if you're entitled to a claim. If you're not happy with HMRC's decision you can ask for a review by an independent officer or appeal to the VAT and Duties Tribunal.

For information on methods of error correction, how to make a claim, time limits and unjust enrichment, see How to correct VAT errors and make adjustments or claims (VAT Notice 700/45) (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims>).

## 19.13 Example of a VAT account

VAT deductible - input tax		VAT payable - output tax	
VAT you have been charged on your purchases	£	VAT you have been charged on your sales	£
January	2,215.23	January	2,780.23
February	1,626.47	February	2,305.81
March	2,792.01 6,633.71	March	3,302.45 8,388.49
VAT allowable on acquisitions	96.85	VAT due on acquisitions	96.85
Net overclaim of input tax from previous returns	-125.50	Net understatement of output tax on previous returns	719.26

VAT deductible - input tax		VAT payable - output tax	
Bad debt relief	96.48	Annual adjustment: retail scheme - apportionment scheme 1	91.69
Sub-total	6,701.54	Sub-total	9,296.29
Less:		Less:	
VAT on credits received from suppliers	-27.50	VAT on credits allowed to customers	-23.00
Total tax deductible	6,674.04	Total tax payable	9,273.29
		Less total tax deductible	6,674.04
		Payable to HMRC	2,599.25

Remember - there are restrictions to when you can correct net errors by adjusting your VAT account. For more information see paragraph 19.10.

## 20. VAT Returns

### 20.1 Introduction to returns

You must complete a return for each tax period and send it back to HMRC and pay any VAT due for the period by the due date shown on the return.

For more information see VAT Notice 700/12: how to fill in and submit your VAT Return (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>).

### 20.2 How to fill in your VAT Return

#### 20.2.1 General

You can get help on completing your VAT Return see the VAT Returns guide (<https://www.gov.uk/vat-returns>). For more information see How to fill in and submit your VAT Return (VAT Notice 700/12) (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>), which contains a checklist to help you check that your return is complete and correct.

If you still cannot find the answer to your question and you need more help then call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

#### 20.2.2 Online VAT Returns

Submitting your return online is quick, convenient, reliable and secure and there's plenty of help available - see the VAT Returns (<https://www.gov.uk/vat-returns>) guide. You do not have to complete every box on the online return - boxes 3 and 5 are calculated automatically. Check that you have entered the correct figures before you click on 'submit', as you cannot amend the return online after you have submitted it.

The online VAT Return form only accepts figures, a decimal point and a minus sign.

If for any reason, you have a minus figure to enter in box 1 or box 2, or the figure to be entered in box 4 represents an amount due to HMRC instead of an amount to be reclaimed, then you must insert a minus sign before that figure.

Remember, you can call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) if you are in difficulty. If you're unsure about what to do, it's in your own interest to ask for advice at the time, to save HMRC having to send you queries.

### 20.2.3 Paper VAT Returns

You need to make it clear when you're using minus figures on the return, if for any reason, you have a minus figure to enter in box 1, box 2 or box 3, or the figure to be entered in box 4 represents an amount due to HMRC instead of an amount to be reclaimed, then you must write it in brackets.

Remember - do fill in clearly in ink all the boxes where you're asked to give information, writing 'none' where necessary - do not write anything else on your return, or send any correspondence with your return.

If you have not received a return or you spoil or mislay one, do not be tempted to alter another VAT Return form or send your VAT declaration in another way. You should call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) immediately and ask for a replacement, but remember that HMRC cannot provide paper versions of any returns that you're required to submit online.

## 20.3 Tax periods

### 20.3.1 General

The period covered by the return is called a tax period (but on formal documents it may be referred to as a 'prescribed accounting period').

The standard tax period is 3 months. To spread the flow of returns evenly over the year, you will have been allocated to one of 3 groups of tax periods when you were registered.

Group	Tax periods end on the last days of
1	June, September, December and March
2	July, October, January and April
3	August, November, February and May

You can apply through your VAT online account (<https://www.gov.uk/send-vat-return>) to have the tax periods which fit in with your financial year. If the transfer of a going concern results in a new registration, you can apply to retain the tax periods of the previous registration. This also applies if a change in the circumstances of a registered business makes a new registration necessary (see paragraph 26.2).

Alternatively you can write to the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>).

### **20.3.2 Monthly tax periods**

You can ask for monthly tax periods if you normally expect to receive repayments. Remember, if you do have monthly tax periods, you will have to make 12 returns a year instead of 4. You cannot have monthly tax periods if you use the VAT MOSS online

If you have monthly tax periods and you change from receiving repayments to making payments, you may have to change to the standard 3 month tax periods.

### **20.3.3 Non-standard tax periods**

If your accounting system is not based on calendar months, you can apply in writing to the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) to have tax periods which fit your system more closely.

If you have been given approval to use special tax periods, HMRC will send you a new VAT registration certificate. Your VAT Returns will show the dates of the approved special periods.

Whatever your tax periods, you must not alter the dates shown on the return.

## **21. Sending VAT Returns and payment**

### **21.1 Prompt submission of returns and payments**

You must make sure that your return is received and any payment due clears HMRC's bank account by the due date shown on the return. If you fail to do this you could be liable to a default surcharge (see paragraph 21.2.2). Remember that if you're away from your place of business, you must make arrangements so that your return is received and payment clears to HMRC's bank account on time.

For more information about deadlines see the VAT Returns (<https://www.gov.uk/vat-returns>) guide. To help you work out when you need to set up your payments (such as setting up a Direct Debit Instruction) or when you need to make your VAT payments, you can use the VAT payment deadline calculator (<https://www.gov.uk/vat-payment-deadlines>).

Prompt and correctly completed returns and payments are the best way of avoiding trouble. If you foresee any difficulty, your best course of action is to contact HMRC if you cannot pay your tax bill on time (<https://www.gov.uk/difficulties-paying-hmrc>).

### **21.2 Late, incomplete or incorrect returns and payments**

#### **21.2.1 Assessments**

If you fail to make a return when it's due or make an incomplete or incorrect return, HMRC has powers to assess, to the best of its judgement, the amount of VAT you owe. The assessment, which is sent to you, is not a demand for payment but HMRC's assessment of how much tax you owe. Once you submit the relevant return, with your declared amount of tax, the assessment is withdrawn and the tax owed is that declared by you on your return.

HMRC does not make assessments more than 4 years after the end of the relevant tax period unless there are special circumstances, such as fraud. In these special cases the period of assessment is limited to 20 years. If HMRC issues an assessment which is later found to be too low, HMRC may issue an additional or supplementary assessment, subject to assessment time limits.



If you repeatedly pay assessments instead of sending in VAT Returns, then HMRC will increase the amount for which you're assessed with each assessment. HMRC also has powers to assess for recovery of any refunds of VAT and statutory interest that were wrongly paid or credited to you.

### **21.2.2 Default surcharge**

You're required by law to submit a VAT Return and to make sure that payment of the VAT due has cleared to HMRC's bank account by the due date. If you fail to do so, you will be in default and you may have to pay a surcharge. A surcharge is an additional amount you may have to pay if you do not pay your return on time.

For more information see Default surcharge (VAT Notice 700/50) (<https://www.gov.uk/guidance/vat-default-surcharge-notice-70050>).

### **21.2.3 Approval to use estimated figures on VAT Returns**

If you know that you'll be unable to make an accurate return, you should tell HMRC by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) as soon as possible. Your letter should ask for HMRC's agreement to the submission of estimated figures for the return in question and set out when you intend to correct this. If HMRC considers that you have a good reason, you may, exceptionally, be allowed to estimate your input tax or output tax, or both.

If you're allowed to use estimated figures and your return and VAT payment reach HMRC by the due date, you will not be in default. But, if you ask for approval to use estimated figures once the due date is passed, HMRC will consider your request but it will not affect any default which has already been recorded.

You must establish the correct amount of VAT. Any resulting adjustment must be included on the VAT Return for the next period. If HMRC agrees that this is not possible, you may include any revisions in the following period at the latest. For more information on how to make adjustments see How to correct VAT errors and make adjustments or claims (VAT Notice 700/45) (<https://www.gov.uk/government/publications/vat-notice-70045-how-to-correct-vat-errors-and-make-adjustments-or-claims>).

### **21.2.4 Failure to pay**

If you think you may not be able to pay your VAT on time, it's important that you contact HMRC's support for your business service (<https://www.gov.uk/business-support-helpline>) right away. You should also make urgent contact with your bank and your financial adviser.

For general information about how to pay VAT to HMRC see paragraph 21.3.

### **21.2.5 Legal action for non-payment**

HMRC has powers to recover money owed if you neglect or refuse to pay it, by taking distraint action (seizing your goods and selling them at auction in settlement of the tax, interest and costs). In Scotland this action is called 'attachment'. HMRC may also take County Court Proceedings or insolvency proceedings.

## **21.3 Methods of payment**

Under UK law you must file VAT Returns online unless you meet one of the exceptions outlined in the VAT Returns guide. The different payment options are outlined in the Pay your VAT bill (<https://www.gov.uk/pay-vat>) guide, where you'll also find HMRC's bank details.

If you're not required to file your return online and pay electronically you can still pay by cheque. For more information on this and other methods of payment, see VAT Notice 700/12: how to fill in and submit your VAT Return (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>).

## **21.4 Methods of repayment**

HMRC will ordinarily make repayments of VAT direct to your UK bank account or building society. So you need to give your account details to HMRC - even if you've already set up a direct debit for VAT Returns. To add or change them, go to the registration details in your VAT online account (<https://www.gov.uk/send-vat-return>).

Alternatively you can tell HMRC by writing to the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>).

Where you do not have a UK bank account, HMRC can make repayments by payable order.

The same repayment method applies whether you use the paper or electronic return.

HMRC cannot make repayments claimed by you unless you've submitted all your returns. If there are any outstanding tax liabilities, HMRC will offset them against the amount of your claim.

## **21.5 Dealing with amounts of less than £1**

If the net VAT payable calculated to the nearest penny is less than £1, you do not need to make a payment. Similarly, if the net VAT repayable is less than £1, you will not get a repayment.

Amounts under £1 should not be carried forward to the next return.

## **21.6 Delayed repayments and repayment supplement**

Repayment supplement is a type of compensation HMRC will pay to you in certain circumstances if payment of your claim is not authorised within 30 days of the receipt of your VAT Return.

For more information see Treatment of VAT repayment returns and supplements (VAT Notice 700/58) (<https://www.gov.uk/guidance/treatment-of-vat-repayment-returns-and-supplements-notice-70058>).

## **21.7 Payments on account scheme**

If you submit quarterly returns and the total annual VAT liability of your business exceeds £2 million (including import VAT and goods ex-warehouse) you'll be liable to make payments on account.

For more information see VAT payments on account (<https://www.gov.uk/guidance/vat-payments-on-account>).

# **22. Supplies made by or through agents**

## **22.1 Introduction to supplies involving agents**

The information on this subject is in 4 sections, which explain how you should account for VAT if you:

- use the services of an agent
- act as an agent in arranging supplies of goods or services

The sections are:

- Section 22 - general rules
- Section 23 - arrangements for invoicing
- Section 24 - UK, EU and international supplies involving UK undisclosed agents
- Section 25 - other situations

## **22.2 General information about agents**

You're an agent if you act for, or represent, someone else (your principal) in arranging supplies of goods or services. The supplies that you arrange are made by, or to, the principal you represent.

Principals cannot avoid their liability to account for VAT on their supplies or to pay VAT on their purchases by using an agent.

Persons who carry on a business on their own account sometimes use the words 'agent' and 'agency' to describe their trading style. For example:

- distributors, sole concessionaires and motor agents usually trade as principals on their own account
- employment agencies and travel agents are not usually agents in all their activities

On the other hand, some people who normally trade as principals, such as solicitors and architects, may occasionally arrange supplies as agents for their clients.

To act as an agent, you must have agreed with your principal to act on their behalf in relation to the particular transaction concerned. This may be a written or oral agreement, or merely inferred from the way you and your principal conduct your business affairs. Whatever form this relationship takes:

- it must always be clearly established between you and your principal, and you must be able to show to HMRC that you're arranging the transactions for your principal, rather than trading on your own account
- you will not be the owner of any of the goods, or use any of the services which you buy or sell for your principal
- you will not alter the nature or value of any of the supplies made between your principal and third parties

If you're an agent who acts on behalf of an overseas trader, you will also need to look at Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>) and Goods exported from the UK (VAT Notice 703) (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>).

## **22.3 How agents are involved with VAT**

As an agent, you'll usually be involved in at least 2 separate supplies at any one time, the:

- supplies made between your principal and the third party
- supply of your own services to your principal, for which you will charge a fee or commission - the normal VAT rules apply to your services as an agent

It's important to distinguish between these separate supplies.

## **22.4 Liability of supplies**

The liability of the supply of your own services to your principal will not always be the same as the liability of the supply between your principal and the third parties.

### **22.4.1 Selling agents**

If you're a selling agent and the supply you're arranging on behalf of your principal is taxable, your supply of services to your principal in arranging that supply is standard-rated. But, if the supply you're arranging for your principal is exempt from VAT, your supply of services in arranging that supply may also be exempt.

Further information about exempt supplies is in paragraph 29.4. You should consult the notice relevant to the type of supply made by your principal or the third party to determine whether your own supply to your principal is within the exemption.

### **22.4.2 Buying agents**

If you're a buying agent and the supply you're arranging from the third party to your principal is taxable, your supply of services to your principal in arranging that supply is standard-rated. But, if the supply you're arranging by the third party to your principal is exempt, your supply to your principal in arranging that supply may also be exempt.

Further information about exempt supplies is in paragraph 29.4. You should consult the notice relevant to the type of supply made by the third party to determine whether your own supply to your principal is within the exemption.

### **22.4.3 Intermediary services**

You may be able to zero rate the supply if you make arrangements for:

- the export of any goods to a place outside the UK
- a supply of services which is itself zero-rated as work on goods for export from the UK
- any supply of services which is made outside the UK

For more information see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## **22.5 Agents acting in the name of their principals**

As an agent, you may sometimes take a minor role in a transaction, and simply introduce your principal to potential customers or suppliers (third parties).

At other times you may be more closely involved. You might:

- receive or deliver goods
- hold a stock of goods for your principal
- make or receive payment

But, provided that the invoicing for the supply is between the principal and the customer, the only supply for VAT purposes being made by you will be the provision of your services to your principal.

## 22.6 Agents who act in their own name

You may sometimes be empowered by your principals to enter into contracts with a third party on their behalf. In such cases, particularly if your principal wishes to remain unnamed, you may receive and issue invoices in your own name for the supplies concerned.

An agent who acts in such a capacity is usually referred to as an undisclosed agent or a commissionaire.

In commercial terms, the transaction you arrange as an agent remains between your principal and the third party involved. But, you should note that these rules apply to supplies of goods and services.

### Goods

If you issue an invoice in your own name for a supply of goods which you arrange for your principal, then for VAT purposes only, you must treat the transaction as though it was both a supply to you and a supply by you.

### Services

If you're an agent arranging a supply of services and both you and the supplier are registered for VAT, and the supplies are taxable, then you may treat yourself as both receiving and supplying those services.

If you do this, you'll be regarded as acting in your own name and treated for VAT purposes in the same way as an agent arranging supplies of goods.

In both circumstances, you're liable to account for VAT on the supply of the goods or the services, as well as on your own supply of services to your principal. But you may also reclaim as input tax any VAT charged on the supply made to you. As you do not alter the nature or value of your principal's supply, the amount of input tax reclaimed will normally be equal to the output tax you account for on that supply.

### Further details

You must not reclaim input tax under this procedure before you have accounted for the relevant output tax.

You must include the value of the supply in your VAT account and on your VAT Return as a supply both made, and received, by you.

It's important to remember that the VAT treatment of the supply you arrange does not affect your liability to account for VAT on your own supply of services to your principal.

<b>But if you're</b>	<b>then you</b>
an undisclosed agent involved in international supplies of goods or services	should read section 24 for information on the VAT treatment

<b>But if you're</b>	<b>then you</b>
a UK undisclosed agent involved with domestic supplies	should also read section 24 for information on the option which allows you to use the same VAT treatment, which is intended to ease VAT accounting
arranging supplies of second-hand goods, antiques, works of art or collectors' items	may be able to choose to use the Margin Scheme and include the value of your services in calculating the VAT due - further details are in The Margin and Global Accounting Scheme (VAT Notice 718) ( <a href="https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718">https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718</a> ) for second-hand goods, antiques, works of art and collectors' items
partly exempt (see paragraph 13.1), and are subject to these arrangements	should write to the VAT Written Enquiries Team ( <a href="https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries">https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries</a> ), since this may have an effect on your partial exemption method

These arrangements cannot be used for supplies which are for the benefit of travellers, for example, supplies of accommodation or passenger transport. You can find further details in Tour operators margin scheme (VAT Notice 709/5) (<https://www.gov.uk/guidance/tour-operators-margin-scheme-for-vat-notice-7095>).

## 22.7 Registration

If you're an agent, and the value of your taxable supplies is above a certain limit you must register for VAT. The value of your taxable supplies includes both the value of your taxable supplies to your principal and the value of any taxable supplies which you make in your own name.

For more information see Who should register for VAT (VAT Notice 700/1) (<https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat>) which also explains how you can register voluntarily if the value of your taxable supplies is below the relevant limit. The relevant limits are set out in the supplement to Who should register for VAT (VAT Notice 700/1) (<https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat>).

## 23. Invoicing arrangement for supplies made by or through agents

### 23.1 Invoicing for supplies made through a selling agent not using a margin scheme

#### 23.1.1 Agents acting in the name of their principals

(See paragraph 22.5.)

<b>If all the following apply</b>	<b>then all the following also apply</b>
-----------------------------------	--

<b>If all the following apply</b>	<b>then all the following also apply</b>
<p>your principal is VAT registered</p> <p>their supply to the third party is taxable and you're registered for VAT</p>	<p>your principal must issue the VAT invoice made out to the customer and send it either direct to the customer, or through you to pass on to the customer, you only account for VAT on your supply of agent's services to your principal</p>
<p>your principal is not registered for VAT but you're VAT registered</p>	<p>no VAT is due on the supply arranged by you but you must:</p> <ul style="list-style-type: none"> <li>- account for VAT on your supply of agent's services to your principal, and</li> <li>- possess evidence that you're arranging the supply on behalf of your principal. The supply should be readily distinguishable in your records from supplies on which VAT is charged.</li> </ul> <p>This evidence may take the form of a standing agreement between you and your principal (the supplier), or it may be a signed declaration from your principal. This declaration should give the principal's name and address, and state that the principal is not a VAT-registered person making a supply of the specified goods/services in the course of business</p>

### 23.1.2 Agents registered for VAT and acting in their own name

(As defined in paragraph 22.6.)

You may, if you wish, adopt the accounting arrangements set out in section 24, but if you choose not to do so you should account for VAT in accordance with this paragraph.

<b>If</b>	<b>Then</b>
<p>your principal is registered for VAT, and their supply to the customer is taxable</p>	<p>your principal must issue a VAT invoice to you for the actual price paid by the buyer, and you may then reclaim any VAT as input tax.</p> <p>As an alternative, you can use the self-billing procedure described in paragraph 17.4.1, if you meet the conditions set out in Self billing (VAT Notice 700/62) (<a href="https://www.gov.uk/guidance/self-billing-notice-70062">https://www.gov.uk/guidance/self-billing-notice-70062</a>)</p>
<p>the customer's registered for VAT</p>	<p>you must account for output tax on the onward supply to the customer, and you must issue a VAT invoice to the customer, and you must also account for VAT on the value of your own supply of services in arranging the supply on behalf of your principal</p>

<b>If</b>	<b>Then</b>
the customer is not registered for VAT	you must account for output tax on the onward supply to the customer, and you must also account for VAT on the value of your own supply of services in arranging the supply on behalf of your principal

This example illustrates the accounting procedure.

A VAT-registered person supplies standard-rated goods or services for £100 plus VAT to another VAT-registered person. The supplier uses an agent who acts in their own name. The agent takes a commission of 10%.

The seller must issue a VAT invoice to the agent showing:

	<b>Amount</b>
<b>Goods or services</b>	£100.00
<b>20% VAT</b>	£ 20.00
<b>Total</b>	£120.00

The seller accounts to HMRC for £20.00 output tax. The agent may reclaim £20.00 as input tax.

The agent must issue a VAT invoice to the buyer showing:

	<b>Amount</b>
<b>Goods or services</b>	£100.00
<b>20% VAT</b>	£ 20.00
<b>Total</b>	£120.00

The agent accounts to HMRC for £20.00 output tax. The buyer may reclaim £20.00 as input tax subject to any partial exemption considerations (see paragraph 13.1).

The agent must also issue a VAT invoice when making a charge to the principal (the seller) for agent's services showing:

	<b>Amount</b>
<b>10% commission</b>	£10.00
<b>20% VAT</b>	£ 2.00
<b>Total</b>	£12.00

The agent accounts to HMRC for £2.00 output tax. Subject to the normal rules the seller can reclaim input tax of £2.00.



In practice, the amount of money that passes between the agent and the principal in this example might only be £108.00, since the agent may deduct commission from the amount collected from the buyer, paying the balance to the principal. But, the full VAT invoicing procedure must still be followed.

## 23.2 Invoicing for supplies obtained through a buying agent not using a margin scheme

### 23.2.1 Agents acting in the name of their principal

(See paragraph 22.5.)

<b>If all the following apply</b>	<b>then all the following apply</b>
the supplier is registered for VAT  the supply you're arranging is taxable, and you're VAT registered	the supplier should issue the VAT invoice made out to your principal and send it either direct, or through you, for you to pass on to your principal and  you only account for VAT on your supply of agent's services to your principal
the supplier is not VAT registered, and you're VAT registered	no VAT is due on the supply you have arranged, but you must account for VAT on the value of your own services to your principal

### 23.2.2 Agents registered for VAT and acting in their own name

(As defined in paragraph 22.6).

You may, if you wish, adopt the accounting arrangements set out in section 24 but if you choose not to do so you should account for VAT in accordance with this paragraph.

The supply is treated as made both to you and by you as an agent.

<b>If</b>	<b>then</b>
the supplier is VAT registered	the supplier will issue a VAT invoice to you, and you may then reclaim the VAT as input tax subject to any partial exemption considerations (see paragraph 13.1), and you must account for output tax on your onward supply to the buyer (your principal) and on the value of your own services in arranging the supply to your principal
your principal is VAT registered	you will need to issue a VAT invoice for both supplies

Your principal should always be able to know the price you paid in obtaining the supply.

This example illustrates the accounting procedure.

A VAT-registered person (the principal) uses an agent to buy standard-rated goods or services from another VAT-registered person (the supplier). The amount charged by the supplier is £100 plus VAT. The agent is registered for VAT and charges £15.00 for services.

<b>The supplier issues a VAT invoice to the agent showing</b>	
Goods or services	£100.00
20% VAT	£ 20.00
Total	£120.00

The supplier accounts to HMRC for £20.00 output tax. The agent may reclaim £20.00 as input tax.

The agent must issue VAT invoices to the principal both for the supply arranged and for the supply of agent's services. Either separate VAT invoices can be issued, or both transactions may be shown on the same VAT invoice. If the same VAT invoice is used, then the amount charged for the goods/services must be shown separately from the amount charged as commission.

<b>Example</b>	
Goods or services	£100.00
20% VAT	£ 20.00
Fee	£ 15.00
20% VAT on fee	£ 3.00
Total	£138.00

The agent should account to HMRC for £23.00 output tax.

## **24. UK, EU and international supplies involving UK undisclosed agents**

### **24.1 Note for UK undisclosed agents involved in domestic supplies**

If you're a UK undisclosed agent involved in domestic supplies, the difficulties outlined in this section may not apply and there's no intention to disturb the current commercial arrangements where you may be invoicing your principals for a separate supply of your own services, as described in paragraph 22.6.

But, if you want to, you may adopt the alternative VAT treatment set out in this section for your domestic transactions.

### **24.2 VAT treatment of supplies involving UK undisclosed agents**

#### **24.2.1 Introduction**

This section deals with the VAT treatment of international supplies of goods or services made through UK undisclosed agents. It also gives information on the option which allows UK undisclosed agents involved in domestic supplies to use this VAT treatment.

Undisclosed agents take part in a supply of goods or services while acting in their own name but they're supplying the goods or services on behalf of another. This means the third party to the transaction is often unaware of the involvement of an agent.

### 24.2.2 The VAT treatment

Agents involved in non-UK, non-EU or EU supplies, who bring themselves within the terms of section 47 VAT Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/section/47>) by acting in their own name, are treated as principals for VAT purposes and seen as taking a full part in the underlying supply of any goods or services.

Consequently, as the agent is taking a full part in the supply, they're no longer recognised as making a separate supply of their own services to their principal and the commission they retain is seen as subsumed in the value of the onward underlying supply.

This treatment is for VAT purposes only. It has no impact on the legal status of agents or the way they're treated for the purposes of other taxes or legislation.

### 24.2.3 Impact of the VAT treatment

(a) Goods imported into the UK, or acquired into Northern Ireland from the EU

Note, for the purposes of the following illustration, the price paid by the final customer is £100, the commission retained by the agent is £20, and the money passed back to the principal is £80, all net of VAT.

<b>If you're a UK undisclosed agent</b>	<b>then the VAT value at</b>
importing goods on behalf of a non-UK principal	importation is decided by the customs rules as previously, and will not change
acquiring goods into Northern Ireland from a principal in an EU member state	acquisition is £80 by virtue of section 20(3) VAT Act 1994 ( <a href="http://www.legislation.gov.uk/ukpga/1994/23/section/20">http://www.legislation.gov.uk/ukpga/1994/23/section/20</a> ) based on the value of the invoice raised by the UK and EU principal to you. You're responsible for Intrastat declarations and must account for acquisition tax

As a UK undisclosed agent that's treated as a principal, you'll be entitled to recover import or acquisition VAT in Northern Ireland, subject to the normal rules. You will then:

- make an onward supply in your own name to your customer for £100
- account for any output tax due

Your commission of £20 will be seen as subsumed in the value of your onward supply of the goods, and you're no longer regarded as making a separate supply of your own services to your non-UK principal.

You may treat costs incurred in the UK, such as warehousing and handling, as supplies to you and you may recover the input tax on them, subject to the normal rules.

## (b) International services

If you're a UK undisclosed agent involved in international services and you act in your own name under section 47(3) VAT Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/section/47>), you're treated as a principal.

The services are seen as supplied to you as though you're a principal, and supplied on by you. This means that you will be treated as taking a full part in the supply chain.

As in the case of imported goods, your commission is seen as subsumed in the value of the onward supply. You're no longer regarded as making a separate supply of your own services to your principal.

Section 47(3) applies in this way in all cases where agents act in their own name in relation to international services. It applies to services being supplied both to and from the UK.

If you make supplies of arranging or facilitating a supply of services, see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## **25. Supplies made by or through agents: other situations**

### **25.1 Disbursements for VAT purposes**

#### **25.1.1 Introduction and conditions for VAT disbursements**

It's the practice in some trades and professions for some or all of the costs incidental to a supply, such as travelling expenses, to be described as disbursements and shown or charged separately on the invoice issued to the client. But, in many cases, these items do not qualify to be treated as disbursements for VAT purposes. For more information see the VAT: costs or disbursements passed to customers (<https://www.gov.uk/guidance/vat-costs-or-disbursements-passed-to-customers>) guide.

If these costs have been incurred by suppliers in the course of making their own supply to their clients, then they must be included in the value of those supplies when VAT is calculated.

But, if you merely pay amounts to third parties as the agent of your client and debit your client with the precise amounts paid out, then you may be able to treat them as disbursements for VAT purposes, and exclude these amounts when you calculate any VAT due on your main supply to your client.

Payments you make on behalf of your customers, for goods or services received and used by them may be treated as 'disbursements' for VAT purposes.

You may treat a payment to a third party as a disbursement for VAT purposes if all the following conditions are met:

- you acted as the agent of your client when you paid the third party
- your client actually received and used the goods or services provided by the third party (this condition usually prevents the agent's own travelling and subsistence expenses, phone bills, postage, and other costs being treated as disbursements for VAT purposes)
- your client was responsible for paying the third party (examples include estate duty and Stamp Duty payable by your client on a contract to be made by the client)

- your client authorised you to make the payment on their behalf
- your client knew that the goods or services you paid for would be provided by a third party
- your outlay will be separately itemised when you invoice your client
- you recover only the exact amount which you paid to the third party
- the goods or services, which you paid for, are clearly additional to the supplies which you make to your client on your own account

All these conditions must be satisfied before you can treat a payment as a disbursement for VAT purposes.

Generally, it's only advantageous to treat a payment as a disbursement for VAT purposes where no VAT is chargeable on the supply by the third party, or where your client is not entitled to reclaim it as input tax.

If you treat a payment for a standard-rated supply as a disbursement for VAT purposes, you may not reclaim input tax on the supply because it has not been made to you. Your client may also be prevented from doing so because the client does not hold a valid VAT invoice.

### 25.1.2 Evidence for VAT disbursements

If you treat a payment as a disbursement for VAT purposes then you must keep evidence (such as an order form or a copy invoice), to allow you to show that you were entitled to exclude the payment from the value of your own supply to your principal. You must also be able to show that you did not reclaim input tax on the supply by the third party.

This example illustrates the invoicing procedure.

A registered person supplies standard-rated services to a client for a basic fee of £80. In addition, the supplier incurs £20 expenses which are passed on to the client, but which do not qualify for treatment as disbursements for VAT purposes. The supplier also pays £50 on behalf of the client in circumstances which qualify that payment to be treated as a disbursement.

<b>The supplier must issue a VAT invoice to the client showing</b>	
Services	£ 80.00
Expenses	£ 20.00
Value for VAT	£100.00
20% VAT	£ 20.00
Disbursements	£ 50.00
Total	£170.00

### 25.1.3 Examples of supplies which cannot be treated as VAT disbursements

The following are examples of supplies which might, for accounting purposes, be charged or itemised separately, but which cannot be treated as disbursements for VAT purposes:

### **Example 1**

A solicitor pays a fee to a bank for the transfer of funds telegraphically or electronically to, or from, the solicitor's own business or client account.

#### **VAT treatment**

The solicitor cannot treat the bank's fee as a disbursement for VAT purposes. The service for which the charge is made is supplied by the bank to the solicitor rather than to the client. Although the bank's supply may be exempt from VAT, the fee when re-charged, even though at cost, is part of the value of the solicitor's own supply of legal services to the client and VAT is due on the full amount.

### **Example 2**

A solicitor pays a fee for a personal search of official records such as a Land Registry, in order to extract information needed to advise a client.

#### **VAT treatment**

The solicitor cannot treat the search fee as a disbursement for VAT purposes. The fee is charged for the supply of access to the official record and it is the solicitor, rather than the client, who receives that supply. The solicitor uses the information in order to give advice to the client and the recovery of this outlay represents part of the overall value of the solicitor's supply. The solicitor must account for output tax on the full value of the supply.

Where a solicitor pays a fee for a postal search, this may be treated as a disbursement since the solicitor merely obtains a document on behalf of the client. The client will normally need to use the document for their own purposes, such as to obtain a loan.

### **Example 3**

A consultant is instructed by the client to fly to Scotland to perform some work.

#### **VAT treatment**

The consultant cannot treat the air fare as a disbursement for VAT purposes. The supply by the airline is a supply to the consultant, not to the client. The recovery of outlay by the consultant represents part of the overall value of the consultant's supply of services to the client. The consultant must account for output tax on the full value of this supply.

### **Example 4**

A private function is held at a restaurant. The customer pays for the food, drink and other facilities provided, and also agree to meet the costs of any overtime payments to the staff.

#### **VAT treatment**

The restaurant cannot treat the overtime payments as disbursements for VAT purposes. The supply by the staff is made to the restaurant, not to the customer. The staff costs are part of the value of the supply by the restaurant and VAT is due on the full amount.

### **Example 5**

A manufacturer makes a separate charge to a customer for royalty or licence fees, which were incurred in making a supply to the customer.

## **VAT treatment**

The manufacturer cannot treat the royalty or licence fees as disbursements for VAT purposes. The recovery of these fees is part of the manufacturer's costs in making the supply to the customer. The manufacturer must account for output tax on the full value of the supply, including the royalty or licence fees.

## **25.2 Auctioneers**

The arrangements in this paragraph apply if auctioneers offer goods for sale as an agent for the seller.

As an auctioneer, if you issue an invoice for the goods in your own name, then the goods are treated as supplied to you by the vendor and from you to the buyer. This means you're liable to account for VAT on the supply of the goods, as well as on the commission you charge the seller and, if applicable, on the fee charged to the buyer, sometimes referred to as buyer's premium.

But, if you're arranging supplies of second-hand goods, works of art, antiques or collectors' items, then you may be able to use the special accounting scheme for auctioneers, allowing you to calculate the VAT due on a margin basis. You can find further details of the Auctioneers' Scheme in the Margin Scheme and global accounting (VAT Notice 718) (<https://www.gov.uk/guidance/the-margin-and-global-accounting-scheme-vat-notice-718>) for second-hand goods, antiques, works of art and collectors' items.

The normal place of supply and liability rules apply to the supplies you make as an auctioneer. For more information on zero rating of supplies of goods for export or to VAT-registered persons in EU member states from Northern Ireland see Goods exported from the UK (VAT Notice 703) (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>) and The single market (VAT Notice 725) (<https://www.gov.uk/guidance/vat-and-the-single-market-notice-725>).

The place of supply of your auctioneer services depends on their nature, to whom they're supplied, and where that person belongs.

### **25.2.1 Services to sellers**

If you act only as a selling agent then your services are normally standard-rated if the place of supply is the UK.

But, if your service is of an 'expert' type, such as consulting or advising on matters such as provenance, value, how to sell, then your supply may be outside the scope of UK VAT, depending on where the seller of the goods belongs.

### **25.2.2 Services to buyers**

If you make a supply of services to the buyer (by charging a buyer's premium), then your supply is normally standard-rated if the place of supply is the UK.

But, if you make a separate charge for providing or arranging services such as packing and exporting the goods to a country outside the UK, then those services may be zero-rated under VAT Act 1994, Schedule 8, Group 7, item 2(a) (<http://www.legislation.gov.uk/ukpga/1994/23/schedule/8>).

For more information about these services see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

As an auctioneer, you may also be asked to arrange sales of goods in the satisfaction of a debt (for example, under a court order). If the debtor is a registered person and the goods are part of the business assets, you must account for VAT using the procedure set out in paragraph 18.4.1.

### 25.3 Exports

If you arrange exports of goods as an agent and you're treated as making the supply to an overseas buyer under the procedures in paragraph 22.6, you may zero rate this supply.

But, you must meet the conditions set out in VAT Notice 703: export of goods from the UK (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>), which require you to obtain and hold valid proof of export as described in that notice.

### 25.4 MOT test charges

This paragraph deals with the VAT treatment of MOT test charges. In particular, it explains the conditions which must be met if the MOT test fee charged by a test centre to an unapproved garage and recharged to the latter's customer is to be treated as a disbursement.

<b>If you're an approved MOT test centre</b>	
<b>then</b>	<b>provided that</b>
the fee you charge for carrying out an MOT test may be treated as outside the scope of VAT	it does not exceed the statutory maximum fee. Any discount you give to an unapproved garage should be treated as a normal trade discount (and does not represent consideration for any supply to you by the garage)

<b>If you're an unapproved garage</b>	
<b>and</b>	<b>then</b>
you act as an agent in arranging an MOT test on behalf of your customer and that customer knows you're acting as such	you may treat the MOT as a disbursement and outside the scope of VAT provided the conditions in paragraph 25.1.1 are met.  Any amount you charge your customer over and above the amount charged to you by the test centre is consideration for your own service of arranging the test on behalf of your customer and is taxable at the standard rate.  Any charges you make to an MOT testing station for delivering vehicles and arranging appointments are subject to VAT
you choose not to treat the amount charged to you by the test centre as a disbursement, or you do not satisfy all the conditions set out in paragraph 25.1.1	you must account for VAT on the full invoice amount



## 25.5 Search agencies

If you obtain a fiche or hard copy of data from a source such as Companies House, the item you obtain should be regarded as a piece of information rather than a tangible object. When you recharge the search fee to your customer, you may treat it as a disbursement and outside the scope of VAT, provided you pass on the information without analysis or comment, and all the conditions outlined in paragraph 25.1.1 are met.

<b>If you're a search agency</b>	
<b>and</b>	<b>then you</b>
you carry out a process on the fiche or hard copy itself, but without using it to inform an opinion or report	may treat the search fee as a disbursement and also outside the scope of VAT.  An example would be where you obtain a search but your customer does not have a facility to read the fiche, and you simply convert it into readable hard copy and pass it on to your customer without comment or analysis. The same would apply where you provide your customer with typewritten extracts of a fiche or document but again, without analysis or comment.
you analyse, comment on, or produce a report on a fiche or document obtained from a source such as Companies House, or otherwise use information obtained in a search to produce a report	must not treat the search fee as a disbursement.  In these cases, the search fee is a component part of your costs in providing your services to your customer, and is taxable at the standard rate

## 25.6 Debt collectors: solicitors' charges and costs awarded by the Courts

This paragraph deals with the arrangements debt collectors enter into for the legal recovery of debts.

It covers the treatment by collectors of:

- VAT charged by solicitors for their services of pursuing the debt through the Court
- fees paid by solicitors to the Court and recovered from the debtor

It also covers the VAT treatment of:

- costs awarded by the Court against the debtor to cover the Court fees
- the solicitor's charges, where the agreement with the creditor allows the collector to retain these monies

Collectors are free to negotiate and agree with their clients about how sums collected from the debtors are to be allocated between the principal debt, Court fees and solicitors' scale charges.

### 25.6.1 Collectors who act as agents

(a) Court fees

The amounts you pay to solicitors for Court fees may be treated as disbursements made on behalf of the creditor, which are outside the scope of VAT. Any amount you recover from debtors for such fees, and retain, may then be regarded as reimbursement of the amounts disbursed and outside the scope of VAT.

#### (b) Legal fees

Where solicitors charge you VAT for their services, there are only 2 options open to you, you may choose:

- not to recover the VAT as input tax, and simply treat the charges as disbursements in accordance with paragraph 25.1 - in this case, where your agreement with the creditor provides that you bear the cost of solicitors' services but retain, as reimbursement of your costs, any amounts you recover from the debtor for solicitors' scale charges awarded by the Court, you may treat such amounts as outside the scope of VAT
- to recover the VAT as input tax, subject to the normal rules, but recharge the fees plus VAT to the creditor under the terms of section 47(3) of the VAT Act 1994 (<http://www.legislation.gov.uk/ukpga/1994/23/section/47>) - under this option, the scale charges you retain represent payment of the fees you have recharged

### **25.6.2 Collectors who act as principals**

#### (a) Accounting for tax

If in the particular circumstances of any case, you consider that you're acting as a principal, then you may recover as input tax any VAT charged to you by the solicitor, subject to the normal rules.

But, any amounts for both Court fees or solicitors' scale charges, or both which you recover from the debtor, and retain, can only represent consideration for your supply of services to the creditor.

You must account for output tax on all such amounts in the normal way. This treatment will not apply if you have received an assignment of debts.

#### (b) Assigned debts

An equitable or legal assignment of the debts to you, whether in whole or in part, is an exempt supply of services to you, and the collection by you of such debts is outside the scope of VAT.

## **26. Changes in circumstances**

### **26.1 Introduction to changes in circumstances**

Your entry in the VAT register is based initially on the information you provide at the time you're registered.

If there are any changes to that information, you must notify the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>). You may render yourself liable to a civil penalty if you fail to notify any of these changes within the prescribed time limit.

This section explains the changes in circumstances which will require:

- cancellation of your registration

- amendment of your existing registration

## 26.2 Changes that require cancellation of VAT registration

In certain situations you have to cancel your registration. These can include selling or closing your business, or when you stop making taxable supplies.

You can also cancel your registration voluntarily if you're no longer required to be registered.

For more information on when and how to do this, see VAT Notice 700/11: cancelling your registration (<https://www.gov.uk/government/publications/vat-notice-70011-cancelling-your-registration>).

## 26.3 Changes that require amendment of registration

Your registration will have to be amended in the case of any changes in:

- the name or trading name of the business, or the name and address of any partner in the business
- the composition of a partnership, even if one or more of the former partners remains in the partnership
- the name and address of the UK agent for VAT purposes, appointed by an overseas company or resident
- the address of the principal place at which the business is carried on
- your main business activity
- the status of the business from limited liability to unlimited liability, or vice versa, under section 49 or 51 of the Companies Act 1985 (<http://www.legislation.gov.uk/ukpga/1985/6/contents>)
- the bank account number, bank sorting code or Girobank account number of the business - as it may take up to 14 days to process any change of repayment method, you should give enough notice to allow the change to be completed and note that any delay in notification may result in a repayment being made under the existing arrangements

You must notify the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) within 30 days of the changes.

You may be liable to a civil penalty if you fail to notify any of the changes within the prescribed time limit. For more information see Who should register for VAT (VAT Notice 700/1) (<https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat>).

Some of the changes require written confirmation, but some may be made via the VAT online service - see Changes to your VAT registration details (<https://www.gov.uk/vat-registration/changes-to-your-details>).

Your VAT registration number will not be altered as a result of these changes.

If you're using the Annual Accounting Scheme, and there's a change in your bank account number, bank sorting code or Girobank account number, you must notify your bank and the VAT Registration Service, as the change will affect the direct debit arrangements.

## 26.4 Group treatment

If you wish to vary the composition of a VAT group, you should apply promptly to the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>). If you do not apply to include an additional member in the VAT

group at the correct time, HMRC will only allow a period of retrospection in very exceptional circumstances. For further information see Group and divisional registration (VAT Notice 700/2) (<https://www.gov.uk/government/publications/vat-notice-7002-group-and-divisional-registration>).

It is not possible to re-allocate a previously held VAT registration number to a group registration or a VAT group registration number to a former group member on disbanding the group.

## 26.5 Divisional registration

A corporate body organised in divisions may be registered for VAT as such. Although each division is given its own registration number, it's the corporate body as a whole that's registered. The corporate body must sign an approval letter before becoming so registered.

If you do not meet the terms of that approval at any time, you must inform the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>). The Service has the authority to cancel the divisional registration and restrict the corporate body to a single registration.

For more information see Group and divisional registration (VAT Notice 700/2) (<https://www.gov.uk/government/publications/vat-notice-7002-group-and-divisional-registration>).

## 26.6 Changes that require a transfer between the UK and Isle of Man VAT registers

The UK and the Isle of Man maintain separate VAT registers. A change of circumstances may mean that transfer between these registers is appropriate.

You notify the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) if:

<b>you have been registered in the</b>	<b>and you acquire a place of business or an agent in the</b>
UK	Isle of Man
Isle of Man	UK

If you had a place of business or an agent in both countries at the time you were registered, you must give notification of any major change in the functions carried out at either address.

## 26.7 Death or incapacity

If a taxable person dies, or becomes bankrupt or incapacitated (or a company goes into liquidation or receivership), and the business run by that person is then carried on by a personal representative, HMRC will allow that personal representative to be treated as the same taxable person. This will apply until such time as another person is registered in respect of the taxable supplies concerned, or, in the case of incapacity, the person concerned is able to continue with their business. The person who carries on the business is responsible for complying with all the normal VAT obligations of a taxable person.

The personal representative carrying on such a business must notify the VAT Registration Service within 21 days of starting to do so, giving details of the date of the death, or the nature of the incapacity and the date that it began, as appropriate. If the personal representative requires any

further advice they should contact the VAT Registration Service

(<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>).

## **26.8 Death of a partner**

The death of a partner should be notified to the VAT Registration Service within 30 days. If 2 or more partners remain, and they intend to continue in business, they should notify the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) accordingly and HMRC will amend their details in its records.

If there's a single surviving partner and that partner intends to recruit a replacement partner, they should notify the VAT Registration Service (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) of the details of the new partner within 30 days of the new partner's appointment.

If there's a single surviving partner and that partner decides to continue the business as a sole proprietor, they should notify the VAT Registration Service

(<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-registration-applications-exceptions-and-changes>) within 30 days of the change taking place.

## **26.9 Insolvency**

If you have a case specific VAT enquiry concerning an insolvent case, for example whether a pre-insolvency return has been rendered or whether set-off will apply in a particular circumstance, quote the VAT registration number and contact the appropriate insolvency team. For more information see paragraph 1.4 of Insolvency (VAT Notice 700/56) (<https://www.gov.uk/guidance/insolvency-and-vat-notice-70056#overview>).

## **26.10 Transfer of a business as a going concern**

If you transfer your business as a going concern you need to know the correct VAT treatment. This includes selling your business as a going concern to a third party. For more information see Transfer a business as a going concern (VAT Notice 700/9) (<https://www.gov.uk/guidance/transfer-a-business-as-a-going-concern-and-vat-notice-7009>).

## **26.11 Exemption from registration**

If your taxable supplies or acquisitions have exceeded the VAT registration threshold but are wholly or mainly zero-rated you can apply to be exempted from registration. For more information see Who should register for VAT (VAT Notice 700/1) (<https://www.gov.uk/government/publications/vat-notice-7001-should-i-be-registered-for-vat>).

## **26.12 Agricultural Flat Rate Scheme**

This scheme is an alternative to VAT registration for anyone involved in certain designated agricultural activities. For more information see Agricultural Flat Rate Scheme (VAT Notice 700/46) (<https://www.gov.uk/guidance/agricultural-flat-rate-scheme-notice-70046>).

## **27. Financial penalties and interest charges**

### **27.1 Introduction to penalties and charges**

HMRC uses a range of measures to encourage people to register for VAT on time, send in accurate VAT Returns and make payments on time.

One of these, default surcharge, is covered in paragraph 21.2.2. Other measures include:

- the penalty for late registration
- penalties for inaccuracies
- the misdeclaration penalty for large or repeated errors
- the penalty for evasion involving dishonesty
- interest charged on underdeclarations

This section explains these measures, when they're put into effect, and how the amount of penalty or interest is calculated.

## **27.2 Late registration penalty**

You may incur a penalty if you fail to notify HMRC at the correct time that you should have registered for VAT. You can find more information about registration, the relevant time limits and penalties for failure to notify in the factsheet *Compliance checks: penalties for failure to notify* (<https://www.gov.uk/government/publications/compliance-checks-penalties-for-failure-to-notify-ccfs11>).

If you were required to notify HMRC that you were liable to be registered for VAT before 1 April 2010 you may incur a belated notification penalty. For more information see *Late VAT registration penalty* (VAT Notice 700/41) (<https://www.gov.uk/guidance/late-registration-penalty-for-vat-notice-70041>).

## **27.3 Penalties for inaccuracies**

HMRC may impose a penalty if you send us a return or other document that contains an inaccuracy and that inaccuracy:

- results in tax being unpaid, understated or overclaimed
- was careless, deliberate or deliberate and concealed

You can find out more in the factsheets:

- *Compliance checks penalties for inaccuracies in returns or documents* (<https://www.gov.uk/government/publications/compliance-checks-penalties-for-inaccuracies-in-returns-or-documents-ccfs7a>)
- *Compliance checks penalties for not telling HMRC about an under-assessment* (<https://www.gov.uk/government/publications/compliance-checks-penalties-for-not-telling-hmrc-about-an-under-assessment-ccfs7b>)

## **27.4 Misdeclaration penalty and repeated misdeclaration penalty**

HMRC may impose a misdeclaration penalty if an error is made on a VAT Return which was due before 1 April 2009. For more information see *Misdeclaration and repeat misdeclaration penalties* (VAT Notice 700/42) (<https://www.gov.uk/guidance/misdeclaration-and-repeat-misdeclaration-penalties-for-vat-notice-70042>).

These penalties do not imply any dishonesty or intention to evade tax. The penalty for conduct involving dishonesty is described in paragraph 27.5.

## 27.5 Tax evasion

Most taxpayers do pay the VAT that's due, but unfortunately some deliberately pay too little or reclaim too much. When HMRC thinks this may have happened, there will have to be an investigation.

### 27.5.1 Objectives

HMRC's objectives in tackling fraud are to:

- secure the highest level of overall compliance
- stop fraud and evasion at the earliest opportunity
- collect the unpaid tax or repayment made, plus related penalties and interest
- make sure, as far as possible, that the fraud does not recur

### 27.5.2 Knowledge of fraud

Some fraudulent activity involves the re-supply of goods or services through a chain of transaction. You should therefore make yourself aware of the risks and possible indicators of a connection with fraud by reading the leaflet VAT: missing trader fraud (<https://www.gov.uk/government/publications/vat-missing-trader-fraud>).

You should also undertake checks to ensure that your business is managed effectively and to ensure the integrity of your supply chains. The checks should be reasonable and proportionate and demonstrate that you're managing the risks to your business. Section 6 of Joint and several liability for unpaid VAT (VAT Notice 726) (<https://www.gov.uk/guidance/joint-and-several-liability-for-unpaid-vat-notice-726>) provides guidance on due diligence checks.

Where HMRC can demonstrate that you knew or should have known that your transactions were connected with fraudulent evasion of VAT then you will lose your entitlement to claim the input tax linked to those transactions. Where the goods have been supplied to a VAT-registered business in an EU member state, you will lose your entitlement to zero rate those transactions.

In addition, Joint and several liability for unpaid VAT (VAT Notice 726) (<https://www.gov.uk/guidance/joint-and-several-liability-for-unpaid-vat-notice-726>) explains the circumstances in which taxpayers may be held liable for VAT unpaid by other parties in supply chains involving specified types of goods.

### 27.5.3 Civil action

In most cases where HMRC suspects dishonest evasion of VAT, HMRC will investigate with a view to the imposition of a civil penalty. The maximum penalty in such cases is an amount equal to the VAT evaded. HMRC will encourage you to co-operate and produce evidence, and may reduce the penalty to take account of the extent of your co-operation with the investigation.

### 27.5.4 Criminal proceedings

But, HMRC may also investigate any case of suspected dishonest evasion of VAT with a view to bringing criminal proceedings. HMRC will decide on the appropriate course of action according to the merits of each case but generally prosecutes only the more serious or aggravated cases. In particular, prosecution is more likely where one or more of the following circumstances apply:

- the evasion involves a registration of one or more businesses whose activities are solely, or primarily, bogus or undertaken as a systematic fraud against the tax

- there is, during the course of investigation of a civil offence, a deliberate intent to deceive
- the evasion is perpetrated by lawyers, accountants or others who advise businesses about VAT matters current or former tax officials or a person who occupies a prominent position in the field of law or government
- the evasion is executed together with other criminal activities, including the evasion of other taxes or duties
- there's been a previous VAT or customs or excise offence which was concluded by the imposition of a penalty, the compounding of proceedings or a criminal conviction
- where there's a conspiracy to evade VAT, other than by persons within the same legal entity
- where the evasion is perpetrated by an undischarged bankrupt
- in circumstances where HMRC has directed that a security should be given under VAT Act 1994, Schedule 11, paragraph 4(2) (<http://www.legislation.gov.uk/ukpga/1994/23/schedule/11>) and taxable supplies take place without the security being given

As an alternative to criminal proceedings, HMRC may accept a financial settlement in place of proceedings pursuant to the HM Revenue and Customs Management Act 1979, section 152 (<http://www.legislation.gov.uk/ukpga/1979/2/section/152>). This is known as compounding. HMRC takes the decision whether to prosecute or compound proceedings according to the merits of each case.

## 27.6 Other penalties

You can incur penalties for various other breaches of HMRC's VAT requirements, such as failure to keep or produce VAT records and unauthorised issue of VAT invoices. You can call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) for further details if necessary.

## 27.7 Reasonable excuse and mitigation

If HMRC (or, following an appeal, an independent tribunal (see section 28)) agrees that there's a reasonable excuse for your late registration or misdeclaration, you will not be liable to a penalty. Alternatively, a penalty can be reduced if there are mitigating circumstances that fall short of a reasonable excuse.

## 27.8 Default interest

In addition to penalties, you may also be charged default interest on undeclared VAT. This includes overclaims of amounts as input tax.

If HMRC finds that you have made misdeclarations you will be sent a Notice of Assessment, showing how much VAT you owe and the amount of interest due.

HMRC will also charge you further interest if you do not pay the VAT due within 30 days of the date of the Notice of Assessment. For more information see Default interest (VAT Notice 700/43) (<https://www.gov.uk/guidance/default-interest-notice-70043>).

## 28. If you disagree with HMRC's decision about VAT

This section explains the procedures that exist to settle disagreements between you and HMRC on VAT matters.



Where HMRC notifies you of a decision relating to your VAT, and you disagree, you may be able to challenge the decision. The following table lists some of the decisions you can challenge.

Subject	Appealable matter
Registration	<p>registration cancellation or invalidation of a registration, or refusal to allow a group registration or a change in a group registration</p>
Assessments	<p>assessment of tax by HMRC, or the amount of an assessment, or assessments issued more than four years after the end of the relevant tax period</p>
Input tax	<p>the amount of input tax which may be reclaimed, or attribution of input tax by partly exempt persons (see Partial exemption (VAT Notice 706) (<a href="https://www.gov.uk/guidance/partial-exemption-vat-notice-706">https://www.gov.uk/guidance/partial-exemption-vat-notice-706</a>))</p>
VAT schemes	<p>refusal to allow the use of one of the schemes described in Retail schemes (VAT Notice 727) (<a href="https://www.gov.uk/guidance/retail-schemes-notice-727">https://www.gov.uk/guidance/retail-schemes-notice-727</a>) the amount of any refund of VAT under the 'do-it-yourself' builders' scheme (see VAT 431NB (<a href="https://www.gov.uk/government/publications/vat-refunds-for-diy-housebuilders-claim-form-for-new-houses-vat431nb">https://www.gov.uk/government/publications/vat-refunds-for-diy-housebuilders-claim-form-for-new-houses-vat431nb</a>) and VAT 431C (<a href="https://www.gov.uk/government/publications/vat-refunds-for-diy-housebuilders-claim-form-and-notes-for-conversions-vat431c">https://www.gov.uk/government/publications/vat-refunds-for-diy-housebuilders-claim-form-and-notes-for-conversions-vat431c</a>)), or refusal to allow the use of the cash accounting scheme</p>
Valuation	<p>HMRC's directions about the value of supplies of goods and services</p>
Amount of tax chargeable	<p>the amount of tax chargeable on any supply of goods or services, or on the importation of any goods or whether any tax is chargeable at all.</p> <p>Note, if you have a dispute about the value of imported goods, you should see Imports (VAT Notice 702) (<a href="https://www.gov.uk/guidance/imports-and-vat-notice-702">https://www.gov.uk/guidance/imports-and-vat-notice-702</a>), which explains the procedure</p>
HMRC requirements	<p>any requirement by HMRC that a particular registered person should provide security as a condition of making taxable supplies, or any requirements concerning electronic invoicing imposed in a particular case by HMRC under VAT Act 1994, Schedule 11 (<a href="http://www.legislation.gov.uk/ukpga/1994/23/schedule/11">http://www.legislation.gov.uk/ukpga/1994/23/schedule/11</a>) (see paragraph 17.7)</p>
Claims	<p>any rejection of a claim by a registered person for repayment of the tax paid on the importation of goods which they do not wholly own (see Imports (VAT Notice 702) (<a href="https://www.gov.uk/guidance/imports-and-vat-notice-702">https://www.gov.uk/guidance/imports-and-vat-notice-702</a>)) any claim for refund of tax on a bad debt (see paragraph 18.5) HMRC's refusal to accept a claim that interest is payable, due wholly or partially to its own error (see paragraphs 2.7 and 21.6), or HMRC's rejection of a claim for payment of repayment supplement</p>

Subject	Appealable matter
Default surcharge or any of the financial penalties referred to in section 27	<p>This includes whether:</p> <ul style="list-style-type: none"> <li>the penalty should be imposed</li> <li>the penalty has been worked out correctly, or</li> <li>there was a 'reasonable excuse'.</li> </ul> <p>Note, if you wish to appeal against default surcharge, you should see Default surcharge (VAT Notice 700/50) (<a href="https://www.gov.uk/guidance/vat-default-surcharge-notice-70050">https://www.gov.uk/guidance/vat-default-surcharge-notice-70050</a>), which will tell you more about this</p>

If it's an appealable matter HMRC tells you how the decision was made and tells you about your rights of appeal.

For more information see Disagree with a tax decision (<https://www.gov.uk/tax-appeals>).

## 29. Zero rating, reduced rating and exemption

### 29.1 Introduction to zero rating, reduced rating and exemption

Section 3 of this notice tells you about the different types of supplies you can make:

- standard-rated
- reduced-rated
- zero-rated
- exempt

This section does not explain the liability of supplies. But, it does tell you:

- in broad terms, the areas of business where you will need to check the liability of your supplies
- which other notices you should refer to if you're involved in any of the areas mentioned

Remember, if any supply that you make is not zero-rated or exempt, it's standard-rated or reduced-rated, meaning there will be an amount of VAT to be charged.

If you read any of the other notices and you're still not sure about the liability of your supplies, do not guess - call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

Remember, if you incur input tax that is related to exempt supplies as well as taxable supplies, you're termed as partly exempt and you will probably not be able to claim all your input tax. See section 13 for further information.

### 29.2 Zero-rated supplies

#### 29.2.1 Bank notes

Finance (VAT Notice 701/49) (<https://www.gov.uk/government/publications/vat-notice-70149-finance>) explains that the first issue, by the bank of issue, of Bank of England, Scottish and Northern Irish bank notes is zero-rated.

## **29.2.2 Books, newspapers, periodicals**

Zero rating books and printed matter (VAT Notice 701/10) (<https://www.gov.uk/guidance/zero-rating-books-and-printed-matter-for-vat-notice-70110>) explains which supplies of books, newspapers, periodicals, leaflets, music, maps and other printed matter are zero-rated and which are standard-rated.

## **29.2.3 Caravans and houseboats**

Caravans and houseboats (VAT Notice 701/20) (<https://www.gov.uk/guidance/vat-treatment-of-caravans-and-houseboats-notice-70120>) explains when the supply of a caravan or houseboat is standard-rated and when it's zero-rated. It also gives information about various services provided by site operators and mooring owners.

For more information on the letting of caravans or houseboats as holiday accommodation, see Hotels and holiday accommodation (VAT Notice 709/3) (<https://www.gov.uk/guidance/hotels-holiday-accommodation-and-vat-notice-7093>).

## **29.2.4 Charities**

Some supplies made by or to charities are zero-rated, some are reduced-rated, some are standard-rated and some exempt.

For example:

- advertising supplied to charities - zero-rated, see Goods or services supplied to charities (VAT Notice 701/58) (<https://www.gov.uk/guidance/vat-when-you-supply-services-or-goods-to-charities-notice-70158>)
- goods donated to a charity for sale by them - zero-rated

For more information see VAT Notice 701/1: charities (<https://www.gov.uk/guidance/how-vat-affects-charities-notice-7011>).

## **29.2.5 Children's clothing and footwear**

See VAT Notice 714: zero rating young children's clothing and footwear (<https://www.gov.uk/guidance/vat-on-young-childrens-clothing-and-footwear-notice-714>).

This explains which supplies of young children's clothing and footwear can be zero-rated.

For information about protective boots and helmets see VAT Notice 701/23: protective equipment (<https://www.gov.uk/guidance/protective-equipment-and-vat-notice-70123>).

## **29.2.6 Construction**

VAT Notice 708: buildings and construction (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>) explains when:

- work to construct a dwelling, residential or charitable building can be zero-rated
- the sale or long lease of dwellings, certain residential buildings (such as care homes) and certain buildings used by charities is zero-rated
- work to convert buildings may be reduced-rated

### **29.2.7 Disabled reliefs**

VAT Notice 701/7: VAT reliefs for disabled and older people (<https://www.gov.uk/guidance/reliefs-from-vat-for-disabled-and-older-people-notice-7017>) explains that under certain circumstances, goods that are specifically designed to be used by a disabled person, or services specifically aimed at assisting a disabled person, may be zero-rated when supplied to a disabled person for their personal use.

### **29.2.8 Drugs, medicines**

VAT Notice 701/57: health professionals and pharmaceutical products (<https://www.gov.uk/guidance/health-professionals-pharmaceutical-products-and-vat-notice-70157>) explains that the dispensing of drugs, medicines and other items to patients by a pharmacist or doctor is zero-rated in certain circumstances.

### **29.2.9 Exports**

The following notices set out the various procedures which allow goods, normally standard-rated in the UK, to be zero-rated as exports:

- VAT Notice 703: export of goods from the UK (<https://www.gov.uk/guidance/vat-on-goods-exported-from-the-uk-notice-703>) - a general notice which explains the conditions and procedures for zero rating the supply of goods for export
- VAT Notice 703/1: supply of freight containers for export or removal from the UK (<https://www.gov.uk/guidance/vat-on-freight-containers-for-export-from-the-uk-notice-7031>) - explains the rules for zero rating the supply of freight containers which are sold or hired for use in international transport
- VAT Notice 703/2: sailaway boats supplied for export outside the UK and EU (<https://www.gov.uk/guidance/sailaway-boats-supplied-for-export-outside-the-eu-notice-7032>) - explains the scheme for zero rating the supply of a boat which is to be exported under its own power
- VAT Notice 704: retail exports (<https://www.gov.uk/guidance/vat-retail-export-scheme-notice-704>) - explains the schemes for zero rating goods sold by retail to overseas visitors, UK residents going abroad or crews of ships or aircraft
- VAT Notice 707: Personal Export Scheme (<https://www.gov.uk/guidance/personal-export-scheme-notice-707>) - explains the scheme for buying a motor vehicle free of VAT where it's to be exported to a destination outside the UK

### **29.2.10 Food, catering and agriculture**

Food products (VAT Notice 701/14): food (<https://www.gov.uk/guidance/food-products-and-vat-notice-70114>) explains which supplies of food and drink for human consumption are zero-rated and which are standard-rated.

For information on catering and take-away food, see Catering, takeaway food (VAT Notice 709/1) (<https://www.gov.uk/guidance/catering-takeaway-food-and-vat-notice-7091>).

There are also more specialist VAT notices that you may find useful:

- animals and animal food VAT Notice 701/15 (<https://www.gov.uk/guidance/animals-and-animal-food-notice-70115>)

- seeds and plants VAT Notice 701/38 (<https://www.gov.uk/guidance/zero-rating-certain-seeds-and-plants-for-vat-notice-70138>)
- food processing services VAT Notice 701/40 (<https://www.gov.uk/guidance/vat-rules-for-food-processing-services-notice-70140>) (includes abattoirs)

### **29.2.11 Gold**

Gold acquisitions, imports and investments (VAT Notice 701/21) (<https://www.gov.uk/guidance/gold-acquisitions-imports-investments-and-vat-notice-70121>) explains which supplies of gold are standard-rated, which are zero-rated and which are outside the scope of VAT. The notice also covers the special voluntary scheme for gold transactions.

### **29.2.12 Health**

Some supplies by health professions and institutions are exempt, some are zero-rated and some are standard-rated.

For more information see the following VAT notices:

- health institutions VAT Notice 701/31 (<https://www.gov.uk/guidance/vat-liability-of-health-institutions-supplies-notice-70131>)
- health professionals and pharmaceutical products VAT Notice 701/57 (<https://www.gov.uk/guidance/health-professionals-pharmaceutical-products-and-vat-notice-70157>)
- VAT reliefs for disabled and older people VAT Notice 701/7 (<https://www.gov.uk/guidance/reliefs-from-vat-for-disabled-and-older-people-notice-7017>)

### **29.2.13 Imports**

Where imported goods are supplied between the time of their arrival in the UK and the time when an import entry is delivered to HMRC, and the new owner of the goods is required to make the import entry, the supply should be zero-rated. For more information see Imports (VAT Notice 702) (<https://www.gov.uk/guidance/imports-and-vat-notice-702>).

### **29.2.14 Intermediary services**

For information on the zero rating of intermediary services see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

### **29.2.15 Land and buildings**

Land and property (VAT Notice 742) (<https://www.gov.uk/guidance/vat-on-land-and-property-notice-742>) explains the issues relating to sales, leases, licences, rights over land, sporting and mineral rights and parking facilities. Many of these supplies are exempt although some are zero-rated and some are standard-rated.

Opting to tax land and buildings (VAT Notice 742A) (<https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a>) explains how you can choose to standard rate some supplies of property, which would otherwise be exempt, by opting to tax.

Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>) explains when the sale or long lease of dwellings, certain residential buildings (such as care homes) and certain buildings used by charities is zero-rated.

### **29.2.16 Passenger transport, international freight, ships and aircraft**

The following notices explain when supplies of freight and passenger transport, and supplies in the ship and aircraft construction and repair industry can be zero-rated. They also deal with the zero rating provided for the handling of certain ships, aircraft and cargo in UK ports and customs airports.

The notices are:

- passenger transport VAT Notice 744A (<https://www.gov.uk/guidance/the-vat-treatment-of-passenger-transport-notice-744a>)
- freight transport and associated services VAT Notice 744B (<https://www.gov.uk/guidance/vat-on-freight-transport-and-associated-services-notice-744b>)
- ships, aircraft and associated services VAT Notice 744C (<https://www.gov.uk/guidance/ships-aircraft-and-associated-services-notice-744c>)

You may also find the following VAT notices useful, Land and property (VAT Notice 742) (<https://www.gov.uk/guidance/vat-on-land-and-property-notice-742>) this also covers parking facilities and How VAT applies to taxis and private hire cars (VAT Notice 700/25) (<https://www.gov.uk/guidance/how-vat-applies-to-taxis-and-private-hire-cars-notice-70025>).

### **29.2.17 Protective equipment**

Protective equipment (VAT Notice 701/23) (<https://www.gov.uk/guidance/protective-equipment-and-vat-notice-70123>) explains the scope of the zero rating for motorcycle, cycle and other protective helmets and for protective boots.

It also contains details of the reduced rate for children's car seats.

### **29.2.18 Tools for the manufacture of goods for export**

Zero rate tools that manufacture goods for export (VAT Notice 701/22) (<https://www.gov.uk/guidance/zero-rate-tools-that-manufacture-goods-for-export-notice-70122>) deals with the liability of supplies of certain tools to overseas customers, where the tools are used in the UK solely for the manufacture of goods for export.

### **29.2.19 Training services supplied to overseas governments**

For information on the zero rating of training services supplied to overseas governments, see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

### **29.2.20 Water and sewerage services**

Guidance manual VAT Water and Sewerage Services (<https://www.gov.uk/hmrc-internal-manuals/vat-water-and-sewerage-services>) explains which supplies of water and sewerage services are zero-rated and which are standard-rated.

### **29.2.21 Work on goods for export from the UK and EU**

For more information on the zero rating of work on goods for export from the UK and EU, see Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>).

## **29.3 Reduced-rated supplies**

### **29.3.1 Cable-suspended passenger transport systems**

From 1 April 2013 the 5% reduced rate of VAT applies to supplies in cable suspended passenger transport systems carrying under 10 passengers, such as ski lifts. Cable cars carrying 10 passengers or more are already zero-rated as passenger vehicles. Lifts within buildings are not included.

### **29.3.2 Caravans and houseboats**

Under certain conditions the sale of a caravan may be reduced-rated. Generally, but, supplies will be standard-rated or zero-rated. For more information see Caravans and houseboats (VAT Notice 701/20) (<https://www.gov.uk/guidance/vat-treatment-of-caravans-and-houseboats-notice-70120>).

### **29.3.3 Charities**

Some supplies made by or to charities are zero-rated, some are reduced-rated, some are standard-rated and some exempt.

For example.

Fuel and power supplied to charities for their non-business use - reduced -rated. For more information see Fuel and power (VAT Notice 701/19) (<https://www.gov.uk/guidance/vat-on-fuel-and-power-notice-70119>).

For more general information see Charities (VAT Notice 701/1) (<https://www.gov.uk/guidance/how-vat-affects-charities-notice-7011>).

### **29.3.4 Children's car seats**

Protective equipment (VAT Notice 701/23) (<https://www.gov.uk/guidance/protective-equipment-and-vat-notice-70123>) gives details of the reduced rate for children's car seats.

It also explains the scope of the zero rating for motorcycle, cycle and other protective helmets and for protective boots.

### **29.3.5 Construction work**

Buildings and construction (VAT Notice 708) (<https://www.gov.uk/government/publications/vat-notice-708-buildings-and-construction>) explains when work to convert buildings for residential or charitable use may be reduced-rated.

It also addresses the zero rating of work to construct new buildings and the zero rating of sales of long leases in new buildings.

### **29.3.6 Contraceptive products**

Health professionals and pharmaceutical products (VAT Notice 701/57) (<https://www.gov.uk/guidance/health-professionals-pharmaceutical-products-and-vat-notice-70157>) explains the treatment of contraceptive products, which may be standard-rated, reduced-rated or exempt,

depending upon the circumstances.

### **29.3.7 Energy-saving materials**

Energy-saving materials and heating equipment (VAT Notice 708/6) (<https://www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086>) explains when the installation of specified energy-saving materials can be reduced-rated.

### **29.3.8 Fuel and power**

Fuel and power (VAT Notice 701/19) (<https://www.gov.uk/guidance/vat-on-fuel-and-power-notice-70119>) explains which supplies of solid fuels, oils, gases, electricity, heating, refrigeration and air-conditioning are liable at the reduced rate or standard rate.

### **29.3.9 Grant funded installation of heating equipment or security goods**

Energy-saving materials (VAT Notice 708/6) (<https://www.gov.uk/guidance/vat-on-energy-saving-materials-and-heating-equipment-notice-7086>) explains when the reduced rate applies to the installation of certain heating appliances, central heating, renewable source systems and security goods in the sole or main residence of qualifying persons, where the work is grant funded.

### **29.3.10 Hotel, hostel and similar accommodation**

Supplies of accommodation are generally standard-rated. But, where an individual guest stays for over 28 consecutive days, you may be able to apply the 'reduced value rule'.

For more information see Hotels and holiday accommodation (VAT Notice 709/3) (<https://www.gov.uk/guidance/hotels-holiday-accommodation-and-vat-notice-7093>).

### **29.3.11 Mobility aids for the elderly**

The supply and installation of certain mobility aids are eligible for the reduced rate of VAT when the customer is aged 60 or over and the installation takes place in the customer's own home or a home shared with friends or relations.

The reduced rate only applies to the supply and installation of the following items:

- grab rails
- ramps
- stair lifts
- bath lifts
- built-in shower seats or showers containing built-in shower seats
- walk-in baths with sealable doors

But, the reduced rate does not apply to any repairs or maintenance of those goods once they have been installed.

For more information see Reliefs from VAT for disabled and older people (VAT Notice 701/7) (<https://www.gov.uk/guidance/reliefs-from-vat-for-disabled-and-older-people-notice-7017>).

### **29.3.12 Smoking cessation products**



Health professionals and pharmaceutical products( VAT Notice 701/57)

(<https://www.gov.uk/guidance/health-professionals-pharmaceutical-products-and-vat-notice-70157>) explains when the supply of smoking cessation products will be reduced-rated.

### **29.3.13 Welfare advice or information**

Welfare services and goods (VAT Notice 701/2) (<https://www.gov.uk/guidance/welfare-services-and-goods-notice-7012>) explains when the reduced rate can apply to advice or information that relates directly to the:

- physical or mental welfare of elderly, sick, distressed or disabled people
- care or protection of children and young people

But it only applies where this is of a general nature, not in relation to a particular individual.

### **29.3.14 Women's sanitary protection products**

Women's sanitary products (VAT Notice 701/18) (<https://www.gov.uk/guidance/vat-on-womens-sanitary-products-notice-70118>) explains which sanitary products can be supplied at the reduced rate.

## **29.4 Exempt supplies**

### **29.4.1 Betting, gaming and lotteries**

Some supplies connected with betting, gaming and lotteries are exempt, while others are standard-rated.

Betting, gaming and lotteries (VAT Notice 701/29) (<https://www.gov.uk/guidance/how-vat-applies-to-betting-gaming-and-lotteries-notice-70129>) explains how VAT applies to betting, gaming and amusement machines, bingo and lotteries.

Machine games that are liable to Machine Games Duty are exempt from VAT. For more information see Excise Notice 452: Machine Games Duty (<https://www.gov.uk/government/publications/excise-notice-452-machine-games-duty>).

### **29.4.2 Burial, cremation and commemoration of the dead**

Most supplies relating to burial or cremation are exempt, but there are important exceptions. Burial, cremation and commemoration of the dead (VAT Notice 701/32) (<https://www.gov.uk/guidance/burial-cremation-and-commemoration-of-the-dead-notice-70132>) explains which supplies are exempt and which are taxable.

### **29.4.3 Charities**

Some supplies made by or to charities are zero-rated, some are reduced-rated, some are standard-rated and some exempt.

For example, fund-raising events organised by charities are exempt, as explained in the guidance Charity fundraising events: exemptions (<https://www.gov.uk/government/publications/charity-fundraising-events-exemptions>).

For more information see Charities (VAT Notice 701/1) (<https://www.gov.uk/guidance/how-vat-affects-charities-notice-7011>).

#### **29.4.4 Clubs and associations**

Clubs and associations' VAT responsibilities (VAT Notice 701/5) (<https://www.gov.uk/guidance/clubs-and-associations-vat-responsibilities-notice-7015>) explains the effect of VAT law on supplies made by clubs and associations, and the scope of the exemption for bodies that have objects that are in the public domain and are of a trade union, political, religious, patriotic, philosophical, philanthropic or civic nature.

If you run a youth club you should also see Youth clubs' exemptions (VAT Notice 701/35) (<https://www.gov.uk/guidance/vat-exemptions-for-youth-clubs-notice-70135>). This explains how far you can treat your supplies as exempt.

#### **29.4.5 Competitions in sport and physical recreation**

Sport supplies that are VAT exempt (VAT Notice 701/45) (<https://www.gov.uk/guidance/sport-supplies-that-are-vat-exempt-notice-70145>) explains when entry fees to certain sports competitions may be exempted.

#### **29.4.6 Cost sharing group exemption**

The cost sharing exemption applies when two or more organisations (whether businesses or otherwise) with exempt or non-business activities, or both, join together on a cooperative basis to form a separate, independent entity - a Cost Sharing Group - to supply themselves with certain services at cost price.

The cost sharing exemption applies only in very specific circumstances and will not cover all shared service arrangements.

More detailed guidance can be found in the VAT Cost Sharing Exemption Manual (<https://www.gov.uk/hmrc-internal-manuals/vat-cost-sharing-exemption-manual>).

#### **29.4.7 Culture**

Admission charges to cultural events (VAT Notice 701/47) (<https://www.gov.uk/guidance/admission-charges-to-cultural-events-and-vat-notice-70147>) explains the scope of the exemptions for admission charges to cultural exhibitions and events and for associated fund-raising activities.

#### **29.4.8 Derivatives and terminal markets**

Commodities and terminal markets (VAT Notice 701/9) (<https://www.gov.uk/guidance/commodities-and-terminal-markets-notice-7019>) explains the VAT treatment of transactions in commodity and financial derivatives and trading on certain commodity markets, some of which may be exempt.

#### **29.4.9 Education and vocational training**

Education and vocational training (VAT Notice 701/30) (<https://www.gov.uk/guidance/vat-on-education-and-vocational-training-notice-70130>) explains which supplies related to education are exempt and which are standard-rated. In particular, it deals with:

- education
- training
- research
- private tuition

- supplies provided in connection with these services

#### **29.4.10 Finance and securities**

Finance (VAT Notice 701/49) (<https://www.gov.uk/government/publications/vat-notice-70149-finance>) explains which dealings in money, trading in securities and associated financial services are exempt and which are standard-rated. It contains information about:

- dealings in money and assignment of debts
- provision of credit and loans
- arrangements for all the above
- the operation of bank accounts
- stocks, shares, bonds and other securities
- broking services
- other specialised services related to holding and trading these securities

If you have an international business in financial services or securities, you should see Place of supply (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>). This will help you decide which of the supplies you make are within the scope of UK VAT and how far you can recover input tax on the transactions you undertake.

#### **29.4.11 Health**

Some supplies by health professions and institutions are exempt, some are zero-rated and some are standard-rated.

For example:

- medical and dental care provided by health professionals - exempt
- hospitals and nursing homes - exempt

For more information see Education and vocational training (VAT Notice 701/30) (<https://www.gov.uk/guidance/vat-liability-of-health-institutions-supplies-notice-70131>) and VAT Notice 701/57: health professionals and pharmaceutical products (<https://www.gov.uk/guidance/health-professionals-pharmaceutical-products-and-vat-notice-70157>).

#### **29.4.12 Insurance**

Education and vocational training (VAT Notice 701/30) (<https://www.gov.uk/guidance/insurance-notice-70136>) explains which insurance services are exempt and which are outside the scope of VAT, with or without input tax recovery.

It covers the VAT implications for supplies of:

- insurance and reinsurance transactions
- insurance related services performed by brokers and agents

#### **29.4.13 Investment gold**

Investment gold is exempt from VAT, subject to an option to tax.

For more information see Gold acquisitions, imports and investments (VAT Notice 701/21) (<https://www.gov.uk/guidance/gold-acquisitions-imports-investments-and-vat-notice-70121>) and VAT Notice 701/21A: investment gold coins (<https://www.gov.uk/guidance/investment-gold-coins-and-vat-notice-70121a>) - this contains a list of investment gold coins.

#### **29.4.14 Land and buildings**

Land and property (VAT Notice 742) (<https://www.gov.uk/guidance/vat-on-land-and-property-notice-742>) explains the issues relating to sales, leases, licences, rights over land, sporting and mineral rights and parking facilities. Many of these supplies are exempt although some are zero-rated and some are standard-rated.

Opting to tax land and buildings (VAT Notice 742A) (<https://www.gov.uk/guidance/opting-to-tax-land-and-buildings-notice-742a>) explains how you can choose to standard rate some supplies of property, which would otherwise be exempt, by opting to tax.

#### **29.4.15 Machine Games Duty**

Machine games that are liable to Machine Games Duty are exempt from VAT. This means that some businesses may be fully exempt from VAT and others will be partially exempt.

For more information see Excise Notice 452: Machine Games Duty (<https://www.gov.uk/government/publications/excise-notice-452-machine-games-duty>).

#### **29.4.16 Postage stamps and philatelic supplies**

Postage stamps and philatelic supplies (VAT Notice 701/8) (<https://www.gov.uk/guidance/postage-stamps-and-philatelic-supplies-notice-7018>) explains the VAT treatment of supplies of new and used stamps, including first day covers and stamped stationery.

#### **29.4.17 Sport**

Sport supplies that are VAT exempt (VAT Notice 701/45) (<https://www.gov.uk/guidance/sport-supplies-that-are-vat-exempt-notice-70145>) explains the scope of the exemptions for sporting and physical education services and for entry fees for competitions in sport and physical recreation.

#### **29.4.18 Trade unions, professional bodies and learned societies**

Clubs and associations' VAT responsibilities (VAT Notice 701/5) (<https://www.gov.uk/guidance/clubs-and-associations-vat-responsibilities-notice-7015>) explains the scope of the exemption for bodies with objects that are in the public domain and are of a trade union, political, religious, patriotic, philosophical, philanthropic or civic nature.

It also explains the effect of VAT law on supplies made by clubs and associations.

#### **29.4.19 Works of art, disposals from stately homes**

Antiques or art from historic houses (VAT Notice 701/12) (<https://www.gov.uk/guidance/vat-on-antiques-or-art-from-historic-houses-notice-70112>) explains when disposals of works of art and other objects, including manuscripts, prints and scientific objects, are liable to VAT. It also covers the arrangements under which certain disposals, exempted from capital taxation, may be exempted from VAT.

### **30. Changes in tax rates and liability**

## 30.1 Introduction to changes in tax rates and liability

This section explains what to do when there's a change in the rate of VAT (see paragraph 3.7). The same provisions apply when the tax liability of particular goods and services changes. It's possible that other procedures might be necessary but details of these would be given at the time of any change.

When a VAT rate or liability is changed, it may have to be introduced at short notice. HMRC recommends that your accounting system - whether or not you use a computer - is designed to allow you to adjust to the change without difficulty.

Some particular circumstances

<b>If you</b>	<b>then you</b>
use the Cash Accounting Scheme	can still follow the rules in this section to work out what rate of tax applies.  But you must account for the VAT that's due on the return for the tax period in which you receive payment. This is explained in Cash accounting (VAT Notice 731) ( <a href="https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731">https://www.gov.uk/guidance/vat-cash-accounting-scheme-notice-731</a> )
use a retail scheme	should follow the guidance given in Retail schemes (VAT Notice 727) ( <a href="https://www.gov.uk/guidance/retail-schemes-notice-727">https://www.gov.uk/guidance/retail-schemes-notice-727</a> )
are newly registered	cannot use the rules set out in this section to work out whether you have to account for any tax on a supply which spans your date of registration.  You must follow the time of supply (tax point) rules set out in sections 14 and 15 of this notice to decide whether the supply should be treated as having been made before, or after, the date of registration

## 30.2 Definition of a change in tax rate

In this notice a change in tax rate means that the standard rate or reduced rate has been changed or a new rate has been introduced. Any change will apply from a widely publicised date.

## 30.3 Definition of a change in tax liability

A change in tax liability means that supplies which were taxable at one tax rate - for example, zero rate - become taxable at another - for example, standard rate. It also includes changes involving exempt supplies. This might happen because of a change in the law or in its interpretation.

HMRC will publicise the change, but if you're in any doubt about the tax liability of your supplies or the date of the change, you should call the VAT general enquiries helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

## 30.4 Date of change

Any change in the tax rate or liability will be effective from a specific date. This means that tax will be due at the new rate on supplies of the affected goods or services made on, or after, the date on which the change takes effect.

The date on which supplies are treated as being made for VAT purposes is governed by the tax point rules. Any reference to normal tax points in this section means the tax point as defined in sections 14 and 15 of this notice. Normally, no change of rate or liability can apply to any supply with a tax point before the effective date of the change, but see paragraph 30.8.

There are special rules for imported goods and warehoused goods (see paragraph 30.17).

### 30.5 Reclaiming input tax after a change in tax rate or liability

When reclaiming input tax following a change in the tax rate or tax liability, you must reclaim it at the rate charged by your supplier.

If	then you
you receive a VAT invoice on which tax has been charged at the old rate	can treat as input tax only the actual amount of VAT shown
the amount of tax is not separately shown (for example, if you receive a less detailed VAT invoice - see paragraph 16.6.1)	should work out your input tax by applying the VAT fraction which was appropriate at the tax point
you receive continuous supplies of services invoiced to cover a period up to one year ahead of the supply	should see paragraph 30.10

### 30.6 Completing your VAT Return

You must continue to account for VAT in the period in which the normal tax point occurs. This applies even if you adopt the special rules explained in the following paragraph for deciding the rate of VAT to charge. You should not split the amounts shown on the return between the old and new rules.

### 30.7 Output tax

#### 30.7.1 General principles

When there's a change in tax rate or tax liability, tax is chargeable in accordance with the normal tax point rules as set out in sections 14 and 15 of this notice, unless you decide to adopt the special change of rate provisions shown in paragraph 30.7.2.

Remember, to issue a VAT invoice you must send or give it to your customer for them to keep. A tax point cannot be created simply by preparing an invoice. Also an invoice issued for a zero-rated or exempt supply does not create a tax point.

#### 30.7.2 Special change of rate provisions

If you wish, you may choose to adopt the rate or liability in force at the basic tax point for supplies affected by a change of rate or tax liability. You may do this for all your affected supplies or only some of them.

You must not use these provisions if you have issued a VAT invoice under an approved self-billing arrangement (see paragraph 17.4.1) or when goods are sold from the assets of a business in satisfaction of a debt (see paragraph 18.4).

### **30.7.3 Using the special provisions when the tax rate or liability goes up**

When the amount of VAT to be charged on the supply goes up, you can charge tax at the old rate on goods removed or services performed before the date of the change, even though the tax point would normally be established by the issue of a VAT invoice after the change.

#### **Example**

This example shows how the normal rules and the special provisions would apply for a supply of goods affected by an increase in rate of tax in the following circumstances:

- 1 April - goods removed
- 5 April - tax rate goes up
- 10 April - VAT invoice issued

#### **Normal rules**

Unless you've decided, under paragraph 14.2.2 of this notice, not to follow the 14 day rule, the date of issue of the VAT invoice is the actual tax point. Tax would be due at the new rate.

If you do not follow the 14 day rule, the date when the goods were removed is the tax point. Tax would be due at the old rate.

#### **Using the special provisions**

If you use the special provisions, the basic tax point applies and tax is chargeable at the old rate. The VAT invoice must show the old rate of tax.

### **30.7.4 Using the special provisions when the tax rate or liability goes down**

When the amount of VAT to be charged on the supply goes down, you can charge tax at the new rate on goods removed or services performed after the date of the change, even though payment has been received or a VAT invoice issued before that date.

#### **Example**

This example shows how the normal rules and the special provisions would apply for a supply of goods affected by a decrease in rate of tax in the following circumstances:

- 1 April - VAT invoice issued or payment received
- 5 April - tax rate goes down
- 10 April - goods removed

#### **Normal rules**

The date of issue of the VAT invoice or receipt of payment is the actual tax point to the extent of the amount invoiced or paid. Tax would be due at the old rate on the amount invoiced or paid.

#### **Using the special provisions**

If you use the special provisions, the basic tax point applies and tax is due at the new rate. If you have already issued a VAT invoice showing the old rate of tax, you must correct it by issuing a credit note.

### **30.7.5 Credit notes**

Any credit note should be issued within 45 days after the change and should contain the following details:

- the identifying number and date of issue of the credit note
- your name, address and registration number
- your customer's name and address
- the identifying number and date of issue of the VAT invoice
- a description which identifies the goods or services supplied
- the amount of VAT being credited

If you receive a credit note in this form, you must follow the procedure described in paragraph 19.9.

## **30.8 Supplies of services - general**

When you make a supply of services, such as decorating, part of the work may take place before the date of a change in the tax rate or liability and part on, or after, that date.

In such cases, provided that the supply can be apportioned:

- on the basis of measurable work
- in accordance with your normal costing or pricing system

you may, if you wish, charge tax at the old rate on the part of the work which was performed before the date of the change and at the new rate on the part which was, or is to be, performed on or after that date.

If you issued a VAT invoice before the date of the tax change and apportionment reduces the amount of tax due, you must issue a credit note in accordance with paragraph 30.7.5.

## **30.9 Continuous supplies of goods and services**

### **30.9.1 Normal tax point rules**

The tax points for continuous supplies of goods or services (including the supply of goods on hire, lease or rental) are described in paragraph 14.3 of this notice. Tax is normally chargeable at the rate in force at each tax point.

If you issue VAT invoices covering periods up to one year ahead, giving the amounts and dates when payments are due, they're no longer valid for any payments due after the change. Your customers cannot use these invoices to support claims for input tax.

You must issue fresh VAT invoices for the payments due after the change, showing tax chargeable at the new rate. Fresh VAT invoices issued in these circumstances must refer to and cancel that part of the original VAT invoice which has been superseded. On receipt, your customers must adjust their input tax record accordingly.

### **30.9.2 Using the special provisions**



Where a continuous supply spans a change in the tax rate or liability, you may, if you wish, account for tax at the old rate on that part of the supply made before the change, even though the tax point would occur after the change (for example, where a payment is received in arrears of the supply).

Conversely, you may, if you wish, account for tax at the new rate on that part of the supply made after the change, even though the normal tax point occurred earlier (for example, where a payment is received in advance of the supply).

In each case, you should account for tax on the basis of the value of the goods actually supplied or services actually performed, before or after, the change as appropriate. If this procedure reduces the liability to tax of a supply for which a VAT invoice has already been issued at a higher rate, you must issue a credit note in accordance with paragraph 30.7.5.

### **30.10 Facilities provided by clubs and associations**

In most cases, the tax point for the supply of facilities by a club or association in return for a member's subscription is the time when the subscription is received or a VAT invoice is issued, whichever happens first.

The association must account for tax on the goods or services at the rate in force at the tax point. But, if payment is accepted in instalments, or separate invoices are issued, the association should follow the procedure in paragraph 30.9.

### **30.11 Hire purchase, conditional sale and credit sale**

Under any of these types of agreement there's a single supply of goods, and the normal tax point is the earliest of the date of:

- removal of the goods
- issue of the agreement (provided the agreement is in the form of a VAT invoice)
- the issue of a separate VAT invoice

At the time of a change you may apply the tax rate in force at whichever of these dates provides a lower rate of tax being chargeable on the supply.

The mere signing of an agreement, or its date, does not in itself constitute a tax point.

### **30.12 Payments and VAT invoices in advance of the basic tax point**

If you have received a full or a part payment or issued a VAT invoice in advance of the basic tax point, then tax will normally be due on the amount paid or invoiced at the rate in force at that date (see paragraph 14.2.2).

But, if there's a change in the tax rate before the supply is actually made, then you may choose to account for tax at the rate in force when the supply is actually made, and issue a credit note to correct any VAT overcharged on the original VAT invoice (see paragraph 30.7.5).

### **30.13 Credits (not arising from the change in rate) and contingent discounts**

If you decide to adjust the original tax charge (see paragraph 18.2), tax should be credited at the rate in force at the tax point of the original supply.

Where a contingent discount is allowed and you adjust the original tax charge, tax should be credited at the rate in force at the time of each supply qualifying for the discount.

## **30.14 Price escalation and other upward adjustment in prices**

Where a further payment is required (for example, under a price escalation clause) after a change in the tax rate or liability and after the tax point for the original supply, tax is chargeable on the further payment at the old rate.

This rule applies only to supplies for which the tax point was determined under the rules described in paragraph 14.2. In all other cases, the date when you receive further payment or issue a VAT invoice - whichever happens first - is a tax point and tax is chargeable at that time on the amount received or invoiced.

## **30.15 Existing contracts**

If a contract is made for a supply of goods or services and there's a change in the rate of tax or liability before you supply them, then unless the contract provides otherwise, the price for the supply is increased or decreased by an amount equal to the change.

The application of this provision in any particular case depends on the terms of the contract between the parties concerned. HMRC cannot advise on individual cases.

## **30.16 Second-hand goods**

Tax due on the sale of an eligible article under one of the schemes for second-hand goods (see paragraph 8.5) is determined by applying to the tax-inclusive margin, the VAT fraction appropriate to the rate of tax in force at the tax point.

The tax point for goods sold under a second-hand scheme is either the date of:

- removal of the goods
- the receipt of payment

whichever is earlier.

But if there's a change in the tax rate or liability before the goods are removed, you can, if you wish, account for tax at the rate in force when the goods are removed, even if you have already received payment.

A VAT invoice must not be issued for goods supplied under a second-hand scheme.

## **30.17 Warehoused goods**

### **30.17.1 Imported goods**

When goods are removed from warehouse for home use, the rate of VAT chargeable is that in force at the time of removal.

### **30.17.2 Home-produced goods subject to Excise Duty which have been supplied whilst in warehouse**

The rate of VAT chargeable is that in force when the Excise Duty is paid.

For goods relieved of Excise Duty, the rate of VAT chargeable is that applicable at the time of their removal from warehouse.

## 31. Apportionment of output tax

### 31.1 Introduction to apportionment of output tax

This section gives examples of how to apportion output tax (see paragraph 8.1 of this notice).

There are two basic methods of apportioning output tax - one based on cost, the other on market value. There are examples here of both these methods, including an example of apportionment where you can only determine the cost of one of the supplies.

Both methods can be adapted to apply to either tax-inclusive or tax-exclusive amounts, as shown in the examples under Method 1(a).

You do not have to use any of the methods shown here but, if you do use a different method, it must still give a fair result.

Apportionment is only necessary if the price you charge is the only consideration for the supplies (see paragraph 7.3). If the consideration is not wholly in money you must account for VAT on the open market value of the supplies, as explained in paragraph 7.4.

### 31.2 Examples of methods for apportioning output tax

The examples assume that the standard rate of VAT is 20% and the VAT fraction is therefore 1/6.

#### 31.2.1 Method 1(a) an apportionment based on the cost of both supplies

Example 1: VAT-inclusive price.

You make a zero-rated supply and a standard-rated supply and you charge an inclusive price of £139. The cost of the zero-rated supply is £23 and the tax-exclusive cost of the standard-rated supply is £40.

	<b>You can work out the VAT and the tax values like this</b>	
(a)	Total price (including VAT)	£139
(b)	Cost of zero-rated supply	£23
(c)	Cost of standard-rated supply	£40
	To work out the VAT on the standard-rated supply:	
(d)	Multiply (c) by the standard rate of VAT: $£40 \times 20\% = £8$	

To work out the cost of the standard-rated supply including VAT:

(e) Add (c) and (d):  $£40 + £8 = £48$

To work out the total cost, including VAT, of both supplies:

(f) Add (b) and (e):  $£23 + £48 = £71$

To work out what proportion the standard-rated supply forms of the total cost:

(g) Divide (e) by (f):

$$£48 \div \text{by } £71 = 0.6760$$

To work out the amount of the total price formed by the standard-rated supply:

(h) Multiply (g) by (a):  $0.6760 \times £139 = £93.96$

This is the VAT-inclusive price of the standard-rated supply.

To work out the VAT included in this amount:

(i) Multiply (h) by the VAT fraction:

$$£93.96 \div \text{by } 6 = £15.66$$

To work out the tax value of the standard-rated supply:

(j) Subtract (i) from (h):

$$£93.96 - £15.66 = £78.30$$

To work out the tax value of the zero-rated supply:

(k) Subtract (h) from (a):  $£139 - £93.96 = £45.04$

So the price of £139 is apportioned like this

Value of standard-rated supply = £78.30

VAT on standard-rated supply = £15.66

Value of zero-rated supply = £45.04

Total price (including VAT) = £139.00

Example 2: VAT- exclusive price

For the purpose of this example, the circumstances are identical to those described in example 1 except that you are calculating VAT on the basis of a tax-exclusive selling price of £126.

The VAT and tax values are therefore calculated as follows:

(a) Total price (excluding VAT) £126

(b) Cost of zero-rated supply £23

(c) Tax-exclusive cost of standard-rated supply £40

To work out the cost of both supplies:

(d) Add (b) and (c):  $£23 + £40 = £63$

To work out what proportion the standard-rated supply forms of the total cost:

(e) Divide (c) by (d):

$$£40 \div \text{by } £63 = 0.6349$$

To work out the amount of the total price formed by the standard-rated supply:

(f) Multiply (e) by (a):  $0.6349 \times \text{£}126 = \text{£}80$

This is the tax value of the standard-rated supply, excluding VAT.

To work out the VAT on the standard-rated supply:

(g) Multiply (f) by the standard rate of VAT:  $\text{£}80 \times 20\% = \text{£}16$

To work out the tax value of the zero-rated supply:

(h) Subtract (f) from (a):  $\text{£}126 - \text{£}80 = \text{£}46$

### **31.2.2 Method 1(b) an apportionment based on the cost of one supply only**

You make a standard-rated supply and a zero-rated supply and you charge an inclusive price of £144. The zero-rated supply is of goods which cost you £28 - but the standard-rated supply is of services, the costs of which you cannot identify.

You can work out the VAT and the tax values like this:

(a) Total price (including VAT) £144

(b) Cost of zero-rated supply £28

To work out the value of the zero-rated supply:

(c) Add an uplift to (b):  $\text{£}28 + (\text{say}) 50\% = \text{£}42$

The actual cost-to-value uplift you apply will depend on the specific circumstances, but it must be a fair and reasonable figure, consistent with the profit margins actually achieved in your business.

To work out the amount of the total price formed by the standard-rated supply:

(d) Subtract (c) from (a):  $\text{£}144 - \text{£}42 = \text{£}102$

To work out the VAT included in this amount:

(e) Multiply (d) by the VAT fraction:

$\text{£}102 \div 6 = \text{£}17.00$

To work out the value for VAT of the standard-rated supply:

(f) Subtract (e) from (d):  $\text{£}102 - \text{£}17.00 = \text{£}85.00$

So the price of £144 is apportioned like this:

Value of standard-rated supply £85.00

VAT on standard-rated supply £17.00

Value of zero-rated supply £42.00

Total price (including VAT) £144.00

### **31.2.3 Method 2 an apportionment based on market values**

You make a zero-rated supply and a standard-rated supply and charge an inclusive price of £200. Normally, your customer would have to pay £50 for the zero-rated supply and £200 (including VAT) for the standard-rated supply.

You can work out the tax values and the tax due like this:

(a) Total price (including VAT) £200

(b) Normal price for zero-rated supply £50

(c) Normal price (including VAT) for standard-rated supply £200

To work out the normal price for both supplies:

(d) Add (b) and (c):  $£50 + £200 = £250$

To work out what proportion the standard-rated supply forms of the total normal price:

(e)  $\div$  (c) by (d):

$£200 \div £250 = 0.8$

To work out the amount of the total price formed by the standard-rated supply:

(f) Multiply (a) by (e):  $£200 \times 0.8 = £160$

This is the VAT-inclusive price of the standard-rated supply.

To work out the VAT included in this amount:

(g) Multiply (f) by the VAT fraction ( $1 \div 6$ ):

$£160 \div 6 = £26.67$

To work out the tax value of the standard-rated supply:

(h) Subtract (g) from (f):  $£160 - £26.67 = £133.33$

To work out the tax value of the zero-rated supply:

(i) Subtract (f) from (a):  $£200 - £160 = £40$

So the price of £200 is apportioned like this:

Value of standard-rated supply £133.33

VAT on standard-rated supply £26.67

Value of zero-rated supply £40.00

Total price (including VAT) £200.00

## **32. Apportionment of tax between business and non-business activities**

### **32.1 Introduction to apportionment between activities**

This section explains how to treat tax incurred on goods or services that are used only partly for business purposes (see paragraph 4.6.6).

There are special rules for private use of road fuel. These are set out in Motoring expenses (VAT Notice 700/64) (<https://www.gov.uk/guidance/vat-on-motoring-expenses-notice-70064>).

## **32.2 Need for apportionment**

You cannot treat VAT incurred on purchases of goods and services as input tax unless you intend to use those goods or services for the purposes of your business.

### **32.2.1 Services**

If you buy services for both business and non-business (including private) purposes, you can treat only part of the VAT as input tax. You must work out what proportion of the use of the services is for business purposes. This is called apportionment. You can then make any further apportionment for partial exemption purposes.

### **32.2.2 Goods**

If you buy goods for both business and private purposes, you may apportion the tax in the same way as you would for tax on services. But, if you choose, you may reclaim all the tax on the goods as input tax and then go on to account for output tax in each accounting period on the costs of making the goods available for private purposes.

## **32.3 Private use**

If you buy goods or services for both business and private use, you must first decide on the percentage of business use. You can then work out the amount of VAT you can treat as input tax.

For example, if the VAT on the purchase is £100 and only one quarter is used for business purposes the input tax will be:

$$£100 \div 4 = £25$$

## **32.4 Non-business activities**

If you use goods or services partly for non-business activities - for example, if your organisation is a charity - you will not be able to treat all the VAT you pay as input tax.

You should begin by identifying, as far as you can, VAT on those purchases that are wholly attributable to either a business or a non-business use. Remember, VAT on purchases used wholly for non-business purposes is not input tax.

The VAT incurred on your remaining purchases, which you attribute wholly to a business or non-business use, must then be apportioned. There's no special method of apportionment but your calculations must be fair and reasonable, and you must be able to justify them.

## **32.5 Example of a method of apportionment**

This example shows how you can apportion VAT based on your income.

You should exclude from the calculation:

- the VAT on purchases which will be used wholly for either business or non-business purposes and deal with this as set out above
- purchases on which you can never reclaim input tax (see paragraph 10.3)

For the purposes of this example:

- you pay £1,000 VAT on purchases which are used for both business and non-business purposes
- your income from business activities (taxable and exempt supplies) amounts to £20,000 per year
- your total income from all sources, including business activities, grants and donations, amounts to £50,000 per year

You can work out your input tax like this:

(a) Total VAT paid £1,000

(b) Income from business activities £20,000

(c) Total income £50,000

To work out the proportion which is business income:

(d) Divide (b) by (c):

$£20,000 \div £50,000$  is equal to two fifths

To work out how much of the VAT you have paid you can treat as input tax:

(e) Multiply (a) by (d):

$£1,000$  multiplied by two fifths = £400

This is your provisional input tax for the VAT period.

<b>At the end of each</b>	<b>you</b>
tax period	can reclaim the input tax provisionally, subject to the normal rules
tax year	should make an adjustment by making the same calculation using your total figures for the year

<b>If your returns are</b>	<b>then your tax year ends on</b>
Quarterly	31 March, 30 April or 31 May depending on the tax periods that you have been allocated
Monthly	31 March

Remember, you do not have to use this method. If you consider that it is not suitable for your circumstances you can use any other formula, provided it produces a fair and reasonable result.

## 32.6 Other methods of apportionment



These may include:

- keeping a record of the use made of an object (for example, a yacht or aircraft)
- keeping a record of the time spent by employees on business and non-business activities
- calculating within a building the extent to which the floor area is used for business and non-business purposes

Whatever formula you use, the input tax is only reclaimed provisionally at the end of each tax period. At the end of each tax year you should make the adjustment as explained above.

When visiting you, VAT officers will check to make sure that the amount treated as input tax is fair and reasonable. If you have agreed a particular method with HMRC but consider it to be no longer suitable, you should send HMRC details of your proposed new method by writing to the VAT Written Enquiries Team (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>).

### 32.7 Partial exemption

If you're partly exempt, you must work out how much VAT you can treat as input tax before you deal with any partial exemption calculations (see paragraph 13.1).

## 33. Standard legal abbreviations

This is a list of standard abbreviations for statutory references. The list also indicates those references which should begin in the upper case.

Full stops are used in law to indicate abbreviations. To help computer systems used by the trade, when you refer to the law you should normally leave out any full stops used to indicate abbreviations.

Statutory reference	Singular	Plural
Article (of UK and EU directives)	art	arts
article (of UK Treasury order)	art	arts
chapter	c	cs
Customs and Excise Management Act 1979	CEMA	-
clause	cl	cls
Directive	Dir	Dir
EU Regulation	EU Reg	EU Regs
Finance Act	FA	-
Finance Bill	FB	-
Group	Gp	Gps
item	it	its

<b>Statutory reference</b>	<b>Singular</b>	<b>Plural</b>
Note	Note	Notes
paragraph	para	paras
part	Pt	Pts
regulation	reg	regs
Schedule	Sch	Schs
section	s	ss
Statutory Instrument	SI	SIs
Value Added Tax Act, 1994	VATA 1994	-

## **34. Other VAT notices**

There's a full list of other VAT notices (<https://www.gov.uk/government/collections/vat-notices-alphabetical-order>).

## **Your rights and obligations**

Read Your Charter (<https://www.gov.uk/hmrc/your-charter>) to find out what you can expect from HM Revenue and Customs and what we expect from you.

## **Help us improve this notice**

If you have any feedback about this notice email: [customerexperience.indirecttaxes@hmrc.gov.uk](mailto:customerexperience.indirecttaxes@hmrc.gov.uk).

You'll need to include the full title of this notice. Do not include any personal or financial information like your VAT number.

If you need general help with this notice or have another VAT question you should phone our VAT Helpline (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/vat-enquiries>) or make a VAT enquiry (<https://www.tax.service.gov.uk/shortforms/form/VATGenEnq?dept-name=&sub-dept-name=&location=47>) online.

## **Putting things right**

If you're unhappy with HMRC's service, contact the person or office you've been dealing with and they'll try to put things right.

If you're still unhappy, find out how to complain to HMRC (<https://www.gov.uk/guidance/complain-to-hm-revenue-and-customs>).

## **How HMRC uses your information**

Find out how HMRC uses the information we hold (<https://www.gov.uk/government/organisations/hm-revenue-customs/about/personal-information-charter>) about you.

Published 17 December 2014

Last updated 31 December 2020 + show all updates

1. 31 December 2020

This page has been updated because the Brexit transition period has ended.

2. 26 May 2020

The link to the VAT Supply and Consideration Manual in section 8.1 has been updated.

3. 1 September 2019

Guidance about credits and debts has been updated.

4. 15 March 2019

Para 8.4 'Hire purchase under an agreement for the sale of goods' updated.

5. 27 February 2019

Following the measure on 'unfulfilled supplies' announced in the Budget 2018, paragraph 8.13.1 on charges, deposits and fees, and paragraph 14.2.3 on deposits have been amended.

6. 17 December 2014

First published.

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## Related content

- VAT notices in numerical order (<https://www.gov.uk/government/collections/vat-notices-numerical-order>)
- VAT notices in alphabetical order (<https://www.gov.uk/government/collections/vat-notices-alphabetical-order>)
- How to fill in and submit your VAT Return (VAT Notice 700/12) (<https://www.gov.uk/guidance/how-to-fill-in-and-submit-your-vat-return-vat-notice-70012>)
- Place of supply of services (VAT Notice 741A) (<https://www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a>)
- VAT manuals for HMRC staff (<https://www.gov.uk/government/collections/vat-manuals>)

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- VAT (<https://www.gov.uk/topic/business-tax/vat>)