



Briefing: The UK VAT system

This is a short briefing outlining the Value Added Tax (VAT) system in the UK. It is intended for community food growers and looks at the effects of VAT on the most likely income streams of community food growers. It is intentionally brief and provides links for further information. It is provided as an overview and starting point for future research, but organisations and individuals should seek professional advice, before registering for VAT.

All VAT Notices referred to in this guide are available to download from: available from: www.gov.uk/government/publications

What is VAT?

- VAT is a tax on the sales of most goods and services made to either another business or end consumers. It is collected by businesses and passed on to HM Revenue and Customs (HMRC).
- VAT is a tax on the end customer not on the business. It gets passed along the supply chain until it reaches a person or business that is not VAT registered.
- Once registered for VAT, you must charge VAT at the correct rate on all your goods and services (known as Output Tax). This output tax is held by you, but is not your money and is owed by you to HMRC.
- You can also claim back VAT on most goods and services that you buy (known as input VAT). This input tax is spent by you, but is owed to you by HMRC.
- Periodically you must sum all the Output Tax you have charged and then subtract all the Input Tax you have paid. This difference is the money you owe to HMRC. If you have paid more Input Tax than you have collected Output Tax then HMRC will pay you the difference.

Who can register?

You can register as an individual (i.e. as a self employed person), a partnership (i.e. where two or more people enter business together), a corporate body (e.g. Community Interest Company, Co-op, Bencom or Charity) or a club or association.

When do you have to register?

If your VAT taxable turnover for the previous 12 months is greater than £83,000 you must register.

The previous 12 months is a rolling period and so you must check this turnover regularly.

Your VAT taxable turnover is your total turnover minus all items that are either VAT exempt or outside the scope of VAT (please see below for more details on VAT rates).

You can choose to register voluntarily if your VAT taxable turnover is below £83,000

Once registered, if your VAT taxable turnover falls below £81,000 you can choose to de-register.

For more information see: VAT Notice 700/1: Should I be registered for VAT?

When is it advantageous to register voluntarily?

There are times when it is to your advantage to register for VAT voluntarily even if your VAT taxable turnover is under the threshold:

- If you mostly sell zero rated goods and services and spend a lot on standard rate goods and services, you can claim this VAT back from HMRC.
- If you mostly sell to VAT registered businesses and spend a lot on standard rate goods and services; you can pass the VAT onto your customers and you can claim your input tax back from HMRC.
- If you are about to undertake a big project with a large capital spend, it can be advantageous to temporarily register for VAT and claim this tax back.

It is usually not advantageous to register if you mostly sell standard rated goods or services to the public or non registered businesses. This is because if you pass this VAT onto your customers you are increasing the price they have to pay. If you don't then you will have to absorb this cost yourself. Unless you are making a loss, this Output tax that you absorb will be greater than any VAT you can claim back from HMRC.

Claiming back VAT paid before registration

If you still own the goods (or they were used to make other goods you still own) then you can claim the VAT back on goods purchased up to 4 years before registration.

You can claim the VAT on services purchased up to six months before registration.

VAT rates

There are 5 categories that a product or service can fall in that each are treated differently for VAT. These are Standard Rated, Reduced Rated, Zero Rated, Exempt and Outside the Scope.

Outside the scope

Vat is charged on the supply of goods and services so if there is no goods or services supplied then it is considered Outside the Scope. This means you can not charge VAT on it, be charged VAT on it, or count it towards your VAT taxable turnover. Common Items that are Outside the Scope include: Statutory fees (e.g. fines, corporation tax, congestion charges); business rates; payroll; genuine donations and most grants.

VAT Exempt

These are goods and services that class as business supply but are specifically exempt from VAT. They also do not class towards VAT taxable turnover, nor may you charge VAT on them or be charged VAT for them. They also are not included in any of your VAT reporting. Common Items that are exempt include: insurance; education provided by an eligible body; bank charges and postage.

Zero Rated

These are goods and services that you charge VAT on, but the rate of VAT is zero. They do class towards your VAT taxable turnover and they are included in your VAT reporting. Common items that attract a zero VAT rate include: most food stuffs; plants grown for human or animal consumption and books or newspapers.

Reduced Rated

These are goods and services that you charge VAT on, and the rate of VAT is currently 5%. You must charge VAT on any goods or services you supply that fall into this category and you can reclaim the VAT you spend on purchases in this category from HMRC. Common items that attract a reduced VAT rate include: sanitary protection products and energy saving materials installed in a residential dwelling.

Standard Rated

Anything else is standard rated. That is currently charged at 20%. You must charge VAT on any goods or services you supply that fall into this category and you can reclaim the VAT you spend on purchases in this category from HMRC. Common items that attract a standard VAT rate include: alcohol; fruit juices; energy supplied for business use and contracts.

VAT on food

Most food (unless it is supplied in the course of catering) is zero rated for VAT. There are some exceptions including: ice cream, confectionery, alcohol, fruit juices and other soft drinks and savoury snacks (including crisps and salted or roasted nuts). For more information see: VAT Notice 701/14:Food

VAT on plants and seeds

Most plants and seeds that are grown for human consumption are also zero rated. There are exceptions, specifically:

1. Seeds, plants and cut flowers which are bought for their ornamental effect; and
2. Any produce which is held out for sale either as pet food; packaged as food for birds other than poultry or game or for a non-food purpose

There are specific rules relating to herbs. For more information see: VAT Notice 701/38: Seeds and plants

VAT on education

If you sell education or training as part of your business (even if it is funded by grants) it attracts VAT.

Unless you are an eligible body, the provision of training or education is a standard rated activity and so you must charge 20% VAT on it.

If you are an eligible body the provision of education and 'closely related goods and services' (for the direct use of the pupil, student or trainee; and necessary for delivering the education to that person) are Exempt from VAT.

For our circumstances, to be an eligible body you must be a non-profit making organisation that cannot and does not distribute any profit it makes; and any profit that might arise from its supplies of education or vocational training is used solely for the continuation or improvement of education or vocational training.

For more information see: VAT Notice 701/30: Education and vocational training

VAT and grants

For tax purposes it is important to make sure that what you are calling a grant, really is a grant.

Grant income is income received by you for which you do not have to provide anything in return. If you have to provide goods or services to the person or organisation providing the grant, then it is a trading transaction and not a grant.

Grant income is outside the scope of VAT, therefore no VAT is payable when you receive a grant. You can reclaim the VAT on the expenditure paid for from the grant if the expenditure relates to a VAT trade.

If your activities are entirely grant (or donation) funded, or the activities in question are separate from your trade, then the VAT on your costs cannot be reclaimed.

For more information see: VAT Notice 700: The VAT Guide (section 4.6.5)

Partial exemptions

A business is partly exempt if it makes, or intends to make, both taxable and exempt supplies and incurs tax on costs which relate to both. In principle, you cannot recover VAT that relates to any exempt supplies, although you may be able to if the VAT is below certain limits.

If your VAT on purchases that are relating to exempt activities is:

- less than an average of £625 a month (this is £1875 a quarter) and
- under half the VAT reclaimed

you can reclaim the tax on all your purchases. Otherwise you have to divide up the tax between the exempt and non exempt activities. For more information see: VAT Notice 706: Partial exemption

VAT Reporting

There are a large number of different ways that you can report for VAT. To find the one the suits you best call the VAT helpline. With most of these schemes the amount of VAT you pay (or reclaim) will stay the same, but they have different effects on your cash flow. The Flat Rate Scheme, where you pay a percentage of your turnover as VAT, will alter the amount of VAT you pay.

Please see below for VAT notices relating to VAT schemes.

Further information

- VAT Helpline: (0845 010 9000)
- Introduction to VAT: <https://www.gov.uk/vat-businesses>
- Government VAT Portal: <https://www.gov.uk/browse/tax/vat>
- Cash Accounting Scheme: <https://www.gov.uk/vat-cash-accounting-scheme>
- VAT Retail Schemes: <https://www.gov.uk/vat-retail-schemes>
- VAT Flat Rate Scheme: <https://www.gov.uk/vat-flat-rate-scheme>

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