01 / THE BASICS

VAT made clear

What you charge. What you reclaim. What you pay.

VAT (Value Added Tax) is added to many sales. Once registered, you charge VAT on relevant sales, reclaim VAT on eligible business purchases and pay HMRC the difference. Your VAT return reports those amounts.

For UK-established sole traders and limited companies. Examples use normal VAT accounting, full business use and full VAT recovery unless stated. Not registered? Normally, do not charge or reclaim VAT.

£1,000 Net: before VAT	+	**£200** VAT: 20% of £1,000	=	**£1,200** Gross: total to pay

One quarter, worked through

All these sales and purchases fall in the quarter and have been paid.

Transaction	Before VAT	VAT	Total
Your sales	£10,000	£2,000	£12,000
Materials you buy	£2,000	£400	£2,400
A business laptop	£1,000	£200	£1,200
Employee wages	£3,000	£0	£3,000

£2,000 VAT on sales	−	**£600** VAT you can reclaim	=	**£1,400** VAT payable to HMRC

Wages contain no VAT to reclaim. VAT is separate from tax on profits: even a loss-making business can owe VAT. If eligible purchase VAT is higher than sales VAT, the return can show a refund.

Not every sale is 20%

Treatment	Everyday examples
20%: standard rate	Most services, equipment and adult clothing.
5%: reduced rate	Some supplies, such as domestic energy.
0%: zero-rated	Most basic food, books and children’s clothing.
Exempt: no VAT charged	Insurance and many residential rents.

Zero-rated is not exempt. Zero-rated sales normally allow related purchase VAT claims; exempt sales normally restrict them. Do not use these labels interchangeably.

Construction: some business-to-business building work uses a **reverse charge**: the customer reports the VAT instead of paying it to you. Ask SBX before invoicing.

Official guidance: Charging and calculating VAT · VAT rates · Partial exemption · Construction reverse charge

02 / REGISTRATION & SALES

Know when VAT starts

Track your sales, not your profit. Check every month.

The registration threshold is **£90,000**. "Taxable turnover" includes sales at 20%, 5% and 0%. It generally excludes exempt sales and services treated as supplied outside the UK.

1. LOOK BACK 12 MONTHS

At a month-end, taxable turnover for the previous 12 months exceeds £90,000. Apply within 30 days of that month-end.

Example: £92,000 by 30 September 2026 → apply by 30 October → VAT starts **1 November**.

2. LOOK AHEAD 30 DAYS

You expect more than £90,000 of taxable supplies in the next 30 days alone. Apply within that period.

Example: on 10 October you expect £100,000 of supplies in the next 30 days → VAT starts **10 October**.

This is **not a calendar-year test.** VAT applies to all relevant sales from your start date, not just the amount above £90,000. Some overseas service purchases also count; see page 4.

Registering voluntarily: you can register below the threshold. It can help where customers can reclaim VAT and you have VAT-bearing costs, but can squeeze margins where customers cannot reclaim. Ask us to compare.

Agree the right price

What you quote	Customer pays	Your sale before VAT
£120 including 20% VAT	£120	£100
£120 plus 20% VAT	£144	£120

At 20%, VAT inside a total = total ÷ 6. It is not 20% of that total. Show VAT-inclusive prices to consumers. Your customer being unregistered does not remove VAT from your standard-rated UK sale.

PLATFORM PAYOUTS ARE NOT YOUR SALES FIGURE

Your customer pays **£120**; the payment processor sends you £117 after a £3 fee. Your sale is still £120 including £20 VAT. The £3 is a separate cost. This assumes you are the seller.

Use the right invoice

Use your software's VAT invoice template: business and customer details, VAT number, unique reference, issue and supply dates, description, quantities, net prices, VAT rates, VAT amount and total. Keep credit notes for refunds and corrections.

WAITING FOR YOUR VAT NUMBER?

Allow for the VAT in your agreed total, but do not show it separately yet. Then reissue the VAT invoice once your number arrives. Follow our **VAT Registration Pending** guide.

Official guidance: When to register · Charging and calculating VAT · Consumer prices: ASA guidance · VAT Notice 700: invoices and timing · Waiting for your VAT number

03 / PURCHASES & SAVINGS

Claim what you are entitled to

The best saving is a complete set of business invoices, not extra spending.

For an ordinary purchase claim, you need **UK VAT correctly charged, a valid VAT invoice and eligible business use**. An expense in your accounts is not automatically a VAT reclaim. Imports and reverse charges work differently; see page 4.

Purchase	You pay	VAT claim	Why
Stock or materials	£600	£100	£500 + 20% VAT for your taxable sales.
Laptop or tools	£1,200	£200	£1,000 + 20% VAT; wholly for business.
UK software / accountancy	£120	£20	Supplier correctly charges UK VAT.
UK hotel for a work trip	£180	£30	Genuine business travel; VAT invoice.
Ordinary UK train fare	£60	£0	Zero-rated: no VAT was paid.
Business insurance	£300	£0	Insurance Premium Tax is not VAT.
Unregistered supplier	£200	£0	There is no VAT to reclaim.
Meal entertaining a UK client	£120	£0	Client entertainment is normally blocked.

Examples assume the VAT treatment shown and full business use. Send us bills with no reclaimable VAT too; they still belong in your bookkeeping.

MIXED BUSINESS AND PERSONAL USE

A laptop with £200 VAT and 75% eligible business use gives a **£150 claim** on that basis. Tell us about private use rather than claiming the whole bill.

Three places claims are often missed

Before registration: qualifying goods bought in the last 4 years and still held, and services received in the last 6 months, may qualify. They must relate to the business now registered; send us the old invoices.

Supplier portals: download the actual VAT invoice. A bank entry or ordinary card-payment slip is not usually enough. Some smaller VAT receipts are valid invoices; send them rather than guessing.

Costs paid personally: send the business invoice and tell us who paid. Do not count the same invoice and its bank payment twice.

SPENDING £120 TO SAVE £20 STILL COSTS £100

Reclaiming £20 VAT leaves a £100 cost, before any separate tax relief on profits. Buy what the business needs.

Check with us before buying a car: purchase VAT is normally blocked if private use is allowed.

Official guidance: Reclaiming purchase VAT · Rates on goods and services · Business entertainment · Motoring expenses · VAT Notice 700: invoices and timing

04 / INTERNATIONAL TRADE

Overseas does not mean “no VAT”

Check the transaction and the invoice, not just the currency.

When you buy from abroad

What you receive	What to do for UK VAT
Foreign local tax For example, a French hotel bill.	No claim on your UK VAT return. A separate foreign refund may be possible; ask us.
UK VAT on the invoice For example, goods sold from UK stock.	Correctly charged UK VAT may be recoverable. Check the actual supplier and supply; a foreign service may need a reverse charge instead.
No VAT on imported goods For example, stock shipped into the UK.	Import VAT may still arise. Send the C79 certificate or postponed import VAT statement, as applicable. Customs duty is not VAT.

The important exception: overseas services

For many overseas software, advertising and consultancy bills, you must account for UK VAT yourself. This is the **reverse charge**. Example: a £100 overseas software bill with no VAT charged.

£20	–	£20	=	£0
VAT you report as due		VAT you can reclaim		Extra VAT cost*

*A 20% service with full VAT recovery: £20 is reported as VAT due and £20 is reclaimed on the same return. If recovery is restricted, there can be a real cost.

Give overseas providers your correct business details and VAT number once issued. Send us their invoices even when no VAT appears. If UK VAT was charged in error, get the invoice corrected rather than simply reclaiming it.

NOT REGISTERED? OVERSEAS BILLS CAN PUSH YOU OVER

£80,000 taxable sales + £12,000 relevant overseas service purchases = £92,000 in the same rolling 12 months. These services can count towards the registration test even though they are purchases.

When you sell abroad

Services to a business abroad: ordinary consultancy is often outside UK VAT, not “exempt”. Keep evidence of the customer’s business status and location. Different services can have different rules.

Goods exported from Great Britain: 0% may apply if the export conditions are met. Normally, export and obtain the evidence within 3 months. A foreign buyer alone is not enough.

Ask before: overseas consumer sales, digital products, property, events, marketplaces or Northern Ireland goods. Foreign tax obligations may apply. **Import tip:** postponed VAT accounting can avoid paying eligible import VAT upfront.

Official guidance: Overseas services: Notice 741A · Foreign VAT refunds · Import VAT evidence · Postponed import VAT · Export evidence

05 / RETURNS & CASH FLOW

A simple routine, every quarter

Keep the records moving and the VAT money separate.

QUARTER ENDS 31 MARCH → USUAL DEADLINE 7 MAY

Returns are usually quarterly and normally due one month and seven days after the period ends. A return is still needed if nothing is payable. Check HMRC's actual dates and allow time for payment.

When	Your part
During the quarter	Upload invoices, receipts and credit notes. Keep digital VAT records and file through compatible software unless exempt. Normally keep records for 6 years.
Before preparation	Send bank/card, sales-platform and import records. Flag refunds, deposits, missing receipts and costs paid personally. Loans and owner funding are not sales.
Approve and pay	Approve our figures promptly. For a normal VAT bank payment, use your 9-digit VAT number without spaces. Check whether a Direct Debit is collecting before paying again.

Build a VAT pot: from a £120 receipt containing 20% VAT, set aside £20 initially. Review the reserve as purchase claims become clear. Filing a return does not itself pay the bill.

Know which VAT method you use

Normal invoice accounting: VAT can be due before the customer pays. Cash Accounting may help eligible businesses expecting taxable turnover of no more than £1.35m in the next 12 months: sales VAT follows customer payments; purchase VAT waits until suppliers are paid. Some transactions are excluded.

Flat Rate Scheme: eligible businesses can join with expected taxable turnover of £150,000 or less excluding VAT in the next 12 months. You charge normal VAT but pay HMRC a percentage of VAT-inclusive turnover, usually without purchase VAT claims. An exception covers a single purchase of qualifying capital goods costing at least £2,000 including VAT.

FLAT RATE DOES NOT MEAN YOU CHARGE CUSTOMERS LESS

Businesses spending little on qualifying goods often use **16.5%: £1,200 × 16.5% = £198**, not £165. A first-year discount can apply. Ask SBX to compare before joining.

Unpaid invoices: flag items unpaid for six months. Sales VAT bad-debt relief may be available; VAT previously reclaimed on unpaid purchases may need reversing. Deposits can also bring VAT forward.

Cash tight? Still file on time and contact us/HMRC early. Interest starts from day one overdue; payment and late-filing penalties can follow. Ask about a payment plan rather than waiting.

Contact our office or your account manager.

info@sbxaccountants.com | 020 7046 1730

Ask us before property or new-build work, exempt activities, moving a trade into another company or cancelling VAT registration.

Official guidance: VAT returns · VAT records · Cash Accounting eligibility · Flat Rate rules: Notice 733 · Paying VAT · Unpaid invoices: Notice 700/18 · Late payment interest · Late returns and payment