

VAT Returns and Payments

Introduction

VAT is a tax on most goods and services, and is paid at each stage of the production and distribution chain. Businesses must register for VAT when their taxable turnover is more than the VAT registration threshold (£85,000 for 2022/23).

VAT-registered businesses must add VAT at the appropriate rate to the net sale price of any VAT-liable goods or services that they supply. Registered businesses are required to submit VAT returns and pay any VAT due to HM Revenue & Customs (HMRC).

VAT is a complex subject and it is important to seek professional advice or contact HMRC for guidance to ensure compliance.

This factsheet briefly explains what a VAT return is, how to reclaim VAT, how to pay VAT and the penalties for inaccuracy or late payment of VAT.

VAT returns

All VAT-registered businesses must submit a VAT return to HMRC every three months. This is known as the 'accounting period'. Information about when VAT returns are due is available in a business's online VAT account (known as a Government Gateway Account), which is created when they register for VAT.

A VAT return records things for the accounting period such as:

- Total sales and purchases.
- The amount of VAT owed.
- The amount of VAT the business can reclaim.
- What the VAT refund from HMRC will be.

VAT returns are submitted using a compatible software package or other software (such as spreadsheets) that connects to HMRC. Go to www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-vat for more information.

A VAT return must be submitted even if the business has no VAT to pay or reclaim.

Go to www.gov.uk/vat-returns for more information about VAT returns.

Reclaiming VAT

VAT-registered businesses can usually reclaim the VAT they have paid on business purchases and expenses. The claim must be for a business activity and a business must have records to support the claim and show that VAT was paid.

VAT cannot be reclaimed on:

- Entertainment expenses.
- Purchases if the business uses the VAT Flat Rate Scheme (except some capital assets worth more than £2,000).

There are special rules for working out how to reclaim VAT for:

- Cars, for example buying, repairing, fuel costs.
- Staff travel expenses, for example accommodation and transport expenses.
- Businesses that are partly exempt from VAT.

Go to www.gov.uk/vat-returns/submit-your-return for more information about reclaiming VAT.

Paying VAT

VAT payments should be made by Direct Debit, online banking, debit or credit card, Bacs or Clearing House Automated Payment System (CHAPS) by the deadline shown in the business's online VAT account (known as a Government Gateway Account). Go to www.gov.uk/pay-vat for more information.

If a business has difficulty paying the VAT owed, they should contact HMRC to request an extension of time in which to pay their tax bill. For further information, go to www.gov.uk/difficulties-paying-hmrc.

Penalties and surcharges

HMRC can impose a penalty of up to:

- 100% of any tax understated or overclaimed if a return contains a careless or deliberate inaccuracy.
- 30% of an assessment if HMRC sends one which is too low and the business does not tell them it is wrong within 30 days.

HMRC can record a 'default' if:

- They do not receive a VAT return by the deadline.
- Full payment for the VAT due has not reached their account by the deadline.

A business can enter a 12-month 'surcharge period' if they default. If a business defaults during the surcharge period, it is extended for a further 12 months and the business may have to pay a 'surcharge' on top of the VAT owed.

A surcharge is a percentage of the VAT outstanding on the due date for the accounting period that is in default. The surcharge rate increases every time a business defaults during a surcharge period.

If a business submits a late return, a surcharge will not be payable if:

- The VAT is paid in full by the deadline.
- There is no tax to pay.

- A VAT repayment is due.

For more information about the penalties, go to www.gov.uk/vat-returns/surcharges-and-penalties.

Related factsheets

BIF015 An Introduction to Tax, National Insurance and VAT

BIF234 An Introduction to VAT (Value Added Tax)

BIF386 Invoices and Receipts

BIF483 Tax Deadlines in 2022

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