

STANDARD SCHEME VAT GUIDE

Under the standard scheme, the amount of VAT due is calculated as the VAT you have charged on your sales invoices less any VAT you have suffered on business purchases.

For example:

| | |
|-----------------------|---------------|
| VAT on sales | £2,000 |
| Less VAT on purchases | <u>(£200)</u> |
| Amount due to HMRC | £1,800 |

It is important to note that not all expenses are subject to VAT and that not all VAT is recoverable, for example trains, flights, entertainment, expenses incurred abroad, etc.

In order to claim back VAT you must hold a valid VAT invoice from your supplier, which in most cases must be in your limited company's name, in particular for equipment purchased and services such as telephone, mobile phone, broadband, commercial lettings, etc. The only exemption is where the expense is incurred by an employee in the course of business, for example, travel and subsistence or stationery.

This guide explains how to claim VAT on the most common expenses.

HOW TO CLAIM THE VAT ON YOUR BUSINESS EXPENSES

In order to assist MyAccountant in reclaiming the correct amount of input VAT, it is essential that you complete the Expense Form correctly. Please fill in both the Net and VAT columns for each expense as shown on your VAT receipts. If you do not have a VAT receipt, you cannot claim the VAT back.

The VAT receipts do not need to be sent to MyAccountant, although on occasion we may request copies. They should however be kept for six years as they form part of your business records.

A valid VAT receipt will include:

- A unique invoice number
- The business name and address
- The VAT number
- The tax point (time of supply)
- A description of the goods or services
- The rate of VAT charged
- The total charged

DIFFERENT RATES OF VAT, EXEMPT AND OUT OF SCOPE EXPENSES

There are three different rates of VAT:

- Standard rate of 20%
- Reduced rate of 5%
- Zero rate of 0%

Some goods and services are said to be exempt (e.g. postage stamps) which means that VAT does not apply, however these items are still reportable on the VAT return.

Payments that have nothing to do with VAT are said to be out of scope (e.g. salary payments and pension contributions) and do not appear on the VAT return.

IMPORTANT - Please do not use a formula to calculate the VAT due, your VAT receipts should show the actual breakdown.

MOST COMMON EXPENSES

- **Cost of fuel on company vehicles** – where you use a company car or van for business journeys, you can claim the cost of the fuel as a business expense and therefore the VAT on that fuel purchase. You should also consider however if there is any private use of the vehicle. Private usage, other than just incidental, may require the business to account for VAT on the value of fuel supplied. This can be discussed with your Accounts Manager, because sometimes it is not worthwhile claiming the VAT on your fuel if the mileage is very low.
- **Subsistence** – particular care is needed when completing the Expense Form in respect of subsistence. Most food items are zero-rated, but some (including savoury snacks, crisps, hot food, soft drinks and mineral water) are standard-rated. Your VAT receipt should show the VAT element to reclaim.
- **Travel** – most passenger transport is zero-rated, so you won't be charged VAT on train, bus and air travel.

Taxi fares are standard-rated, but in many cases the business won't be VAT registered and therefore VAT won't be charged.

Off-street car parking is standard-rated, so in most cases (provided the business is VAT registered) you will be able to claim the VAT.

Your VAT receipt should show the VAT element to reclaim if applicable.

- **Books & magazines** – these are zero-rated. Be aware however that digital books are standard-rated, as they are classified as an electronic service.
- **Accountancy fees** – these are standard-rated. There is no need to list our fees in your expenses forms.
- **Mobile phone/Broadband/Landline** – these are standard-rated, however, you must ensure that the contracts are in the company name in order to reclaim the VAT.
- **Insurance** – any type of insurance policy taken out by a company will be exempt from VAT.

- **Overseas goods** - If you buy goods from overseas, these may include the VAT applicable to that country, however this input VAT cannot be reclaimed on the VAT return. Please only enter only UK VAT in your expenses forms.
- **Entertainment** – Entertainment is standard-rated, however, it is not claimable. Please do not enter the VAT element in your expenses forms
- **Mileage Allowance** – Where you use your own car for business journeys, you can claim the HMRC mileage allowance of 45p per mile for the first 10,000 miles per tax year, and 25p per mile thereafter.

It is possible to claim VAT on the fuel element of this mileage claim by using the Advisory Fuel Rates published by HMRC, these are periodically reviewed and are currently as follows:

| Engine size | Petrol - amount per mile |
|------------------|--------------------------|
| 1400cc or less | 11 pence |
| 1401cc to 2000cc | 14 pence |
| Over 2000cc | 22 pence |

| Engine size | LPG - amount per mile |
|------------------|-----------------------|
| 1400cc or less | 7 pence |
| 1401cc to 2000cc | 9 pence |
| Over 2000cc | 14 pence |

| Engine size | Diesel - amount per mile |
|------------------|--------------------------|
| 1600cc or less | 9 pence |
| 1601cc to 2000cc | 11 pence |
| Over 2000cc | 13 pence |

As an example, if you drive a 1650cc diesel car and covered 4,000 miles per year, you could claim £73.33 in VAT, calculated as follows:

4000 miles x 11p = £440

The VAT fraction is 20/120ths of £440, so £73.33

If you would like to claim this, in addition to your mileage log you will need to complete the fuel tab in your expenses form and keep copies of your fuel receipts, MyAccountant will then calculate any VAT that can be claimed.

Fuel cannot be reimbursed, but it is HMRC's requirement that receipts are kept if you wish to claim VAT. If your mileage is low, claiming the VAT might not be worth the extra hassle. In the example above you could claim under 2p per mile

If you have any queries on allowable expenses please contact your Accounts Manager who will be happy to assist you.